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SUPREME COURT OF THE UNITED STATES.

OCTOBER TERM, 1916.

No. 374.

JESSE ISIDOR STRAUS, PERCY S. STRAUS, AND HERBERT
N. STRAUS, COMPOSING THE FIRM OF R. H. MACY &
CO., PETITIONERS,

vs.

VICTOR TALKING MACHINE COMPANY.

ON WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT
OF APPEALS FOR THE SECOND CIRCUIT.

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TRANSCRIPT OF RECORD.

In the United States Circuit Court of Appeals for the Second Circuit,
October Term, 1915.

No. —.

VICTOR TALKING MACHINE COMPANY, Plaintiff-Appellant,

v.

JESSE I. STRAUS, PERCY S. STRAUS, and HERBERT N. STRAUS, Individually and as Co-partners, Trading as R. H. Macy & Co., Defendants-Appellees.

Appeal from the District Court of the United States for the Southern District of New York.

Filed September 22, 1915.

In the District Court of the United States, Southern District of New York.

In Equity.

VICTOR TALKING MACHINE COMPANY, Plaintiff,

v.

JESSE I. STRAUS, PERCY S. STRAUS, and HERBERT N. STRAUS, Individually and Jointly and as Copartners Trading as R. H. Macy & Co., Defendants.

Bill of Complaint.

To the Honorable the Judges of said Court:

The plaintiff above named, for its bill of complaint herein alleges:

1. That it the said Victor Talking Machine Company is a corporation organized and existing under the laws of the State of New Jersey and is a citizen of said State, and has its principal office and place of business at Camden, in said State.

2. That the defendants, Jesse I. Straus, Percy S. Straus and Herbert N. Straus, are each and all of them citizens of the State of New York and residents and inhabitants of the City of New York within the Southern judicial district of said State, and constitute a firm or copartnership under the trade name of R. H. Macy & Co., under which said firm name they conduct and carry on business, and committed the acts hereinafter complained of, within the territorial jurisdiction of this Court, and specifically at the public store conducted by the said defendants, under the firm name aforesaid, located at 34th Street and 6th Avenue in the Borough of Manhattan and City of New York aforesaid.

3. That this Court has jurisdiction of this cause in that it is a suit arising under the Patent Laws of the United States.

4. That on or before the 12th day of February, 1903, one Eldridge R. Johnson having, within the meaning of the statutes of the United States then in force, made a certain invention of new and useful Improvements in Sound Reproducing Machines, commonly called Talking Machines, and having complied in all respects with the conditions and requirements of said statutes and being thereby entitled under the provisions of said statutes to a patent thereon, made his application to the Commissioner of Patents in due form for Letters Patent of the United States for said invention, and thereupon, all the requirements of then existing statutes having been complied with by said applicant, Letters Patent of the United States No. 814,786, dated March 13, 1906, were on that date issued to the plaintiff, Victor Talking Machine Company, as assignee of said Eldridge R. Johnson, he having, during the pendency of said application, by writing in due form and duly recorded in the Patent Office of the United States, sold, assigned and transferred to the said Victor Talking Machine Company all his right, title and interest in said invention and in his right under the statutes aforesaid, to receive such Letters Patent therefor; and the plaintiff avers

3 that ever since the grant and issue of said Letters Patent it has been and is now, the sole owner thereof and entitled as of right to the exclusive privileges conferred thereby.

5. That on or before the 12th day of February, 1903, one Eldridge R. Johnson having, within the meaning of the statutes of the United States then in force, made a certain other invention of a new and useful Improvement in Amplifying Horns, and having complied in all respects with the conditions and requirements of said statutes and being thereby entitled under the provisions of said statutes to a patent thereon, made his application to the Commissioner of Patents in due form for Letters Patent of the United States for said invention (which application was filed on February 9, 1904, as a division of an original application filed by said Eldridge R. Johnson, on February 12, 1903, which said application so filed on February 12, 1903, was pending on said February 9, 1904) and thereupon, all the requirements of then existing statutes having been complied with by said applicant, Letters Patent of the United States No. 814,848, dated March 13, 1906, were on that date issued to the plaintiff, Victor Talking Machine Company, as assignee of said Eldridge R. Johnson, he having, during the pendency of said application, by writing in due form and duly recorded in the Patent Office of the United States, sold, assigned and transferred to the said Victor Talking Machine Company, all his right, title and interest in said invention and in his right under the statutes aforesaid, to receive such Letters Patent therefor; and the plaintiff avers that ever since the grant and issue of said Letters Patent it has been, and is now, the sole owner thereof and entitled as of right to the exclusive privilege conferred thereby.

6. That plaintiff as the owner of the said two several recited Let-

4 ters Patent, has ever since the grant and issue thereof, manufactured in large numbers, examples of said two several inventions patented thereby, and introduced the same into public use and has expended large sums of money in so doing; that plaintiff has marked all such examples with notice of said respective patents as required by law; that its exclusive rights under said two several Letters Patent have generally been recognized and acquiesced in by the public, and have been adjudicated to be valid in one or more suits in equity to redress infringement thereof, which the plaintiff heretofore brought, and particularly in the two causes in equity in the District Court of the United States for the Southern District of New York, one of said suits, Equity No. 8-50, being against Carl Lindstrom Company, a corporation organized and existing under and pursuant to the laws of the State of New York, and Adolph Heineman, and the other of the suits, In Equity No. 2-113, being against William H. Hoschke, individually, and William H. Hoschke, doing business under the trade name and style of Sonora Phonograph Company, for infringement of said Letters Patent Nos. 814,786 and 814,848, respectively, in which said suits, after vigorous defense made, said District Court of the United States by decrees entered of record on the 20th day of January, 1913, sustained and adjudicated the said Letters Patent, and each of them, as valid in respect of certain claims of each of the same including claims thereof which have been and are now being infringed by the defendants in this suit, individually and jointly, and as copartners trading as R. H. Macy & Co.; that no appeal was taken by the defendants, or any of them from said decrees entered January 20, 1913, as aforesaid, or either of them, and that the time for the defendants to appeal therefrom has expired.

7. That on or before the 19th day of July, 1906, one John C. English having, within the meaning of the statutes of the United States then in force, made a certain invention of new and useful Improvements in Sound Reproducing devices, commonly called Talking Machines, and having complied in all respects with the conditions and requirements of said statutes and being thereby entitled under the provisions of said statutes to a patent therefor, made his application to the Commissioner of Patents, in due form, for Letters Patent for said invention and thereupon all the requirements of then existing statutes having been complied with by said applicant, Letters Patent of the United States No. 947,227, dated January 25, 1910, were on that date issued to the plaintiff, Victor Talking Machine Company, as assignee of said John C. English, he having on the 18th day of July, 1906, by writing in due form and duly recorded in the Patent Office of the United States, sold, assigned and transferred to said Victor Talking Machine Company, all his right and interest in said invention and in his statutory right to receive such Letters Patent therefor; and the plaintiff avers that ever since the grant and issue of said Letters Patent it has been and is now the sole owner thereof and entitled as of right to the exclusive privileges conferred thereby.

8. That plaintiff, as the owner of said last recited Letters Patent

has, ever since the grant and issue thereof, manufactured in large numbers, examples of the invention patented thereby, and introduced the same into public use; has expended large sums of money in so doing; has marked every such example with notice of said patent as required by law; and that its exclusive rights in the premises, conferred by said Letters Patent have been generally recognized and acquiesced in by the public.

9. That on or before the 8th day of August, 1900, the said Eldridge R. Johnson having, within the meaning of the statutes of the United States then in force, made a certain other invention relating to and being new and useful Improvements in Sound Records and having complied in all respects with the conditions and requirements of said statutes and being thereby entitled under the provisions of said statutes to a patent therefor, made application to the Commissioner of Patents, in due form, for Letters Patent for said invention and thereupon, all the requirements of then existing statutes having been complied with by said applicant, Letters Patent of the United States No. 739,318, dated September 22, 1903, were on that date issued to the plaintiff, Victor Talking Machine Company, as assignee of said Eldridge R. Johnson, he having, during the pendency of said application, by writing in due form and duly recorded in the Patent Office, sold, assigned and transferred to said Victor Talking Machine Company, all his right, title and interest in said invention and in his statutory right to receive such Letters Patent therefor; and the plaintiff avers that ever since the grant and issue of said Letters Patent it has been and now is the sole owner thereof and entitled as of right to the exclusive privileges conferred thereby.

10. That plaintiff, as the owner of said last recited Letters Patent has, ever since the grant and issue thereof, manufactured in large numbers, examples of the invention patented thereby, and introduced the same into public use; has expended large sums of money in so doing; has marked every such example with notice of said patent as required by law; and that its exclusive rights in the premises, conferred by said Letters Patent, have been generally recognized and acquiesced in by the public.

11. That on or before the 29th day of June, 1912, one Eugene T. Kieffer having, within the meaning of the statutes of the United States then in force, made a certain invention of Design for Talking Machine Cabinet, and having complied in all respects with the conditions and requirements of said statutes and being thereby entitled under the provisions of said statutes to a patent therefor, made application to the Commissioner of Patents, in due form, for Letters Patent for said invention and thereupon, all the requirements of then existing statutes having been complied with by said applicant, Design Letters Patent of the United States No. 43,004, dated September 10, 1912, for the term of fourteen years, were on that date issued to the plaintiff, Victor Talking Machine Company, as assignee of said Eugene T. Kieffer, he having, on June 28, 1912, by writing in due form and duly recorded in the Patent Office, sold, assigned and transferred to said Victor Talking

Machine Company, all his right, title and interest in said invention and in his statutory right to receive such Letters Patent therefor; and the plaintiff avers that ever since the grant and issue of said Letters Patent it has been and now is the sole owner thereof and entitled as of right to the exclusive privileges conferred thereby.

12. That on or before the 29th day of June, 1912, the said Eugene T. Kieffer having, within the meaning of the statutes of the United States then in force, made a certain other invention of Design for Talking Machine Cabinet, and having complied in all respects with the conditions and requirements of said statutes and being thereby entitled under the provisions of said statutes to a patent therefor, made application to the Commissioner of Patents, in due form, for Letters Patent for said invention, and thereupon, all the requirements of then existing statutes having been complied with by said applicant, Design Letters Patent of the United States

No. 43,005, dated September 10, 1912, for the term of four-
8 teen years, were on that date issued to the plaintiff, Victor

Talking Machine Company, as assignee of said Eugene T. Kieffer, he having, on June 28, 1912, by writing in due form and duly recorded in the Patent Office, sold, assigned and transferred to said Victor Talking Machine Company all his right, title and interest in said invention and in his statutory right to receive such Letters Patent therefor; and the plaintiff avers that ever since the grant and issue of said Letters Patent it has been and now is the sole owner thereof and entitled as of right to the exclusive privileges conferred thereby.

13. That on or before the 29th day of June, 1912, said Eugene T. Kieffer having, within the meaning of the statutes of the United States then in force, made a certain other invention of Design for Talking Machine Cabinet, and having complied in all respects with the conditions and requirements of said statutes and being thereby entitled under the provisions of said statutes to a patent therefor, made his application to the Commissioner of Patents, in due form, for Letters Patent for said invention and thereupon, all the requirements of then existing statutes having been complied with by said applicant, Design Letters Patent of the United States No. 43,006, dated September 10, 1912, for the term of fourteen years, were on that date issued to the plaintiff, Victor Talking Machine Company, as assignee of said Eugene T. Kieffer, he having, on June 28, 1912, by writing in due form and duly recorded in the Patent Office of the United States, sold, assigned and transferred to said Victor Talking Machine Company, all his right, title and interest in said invention and in his statutory rights to receive such Letters Patent therefor; and the plaintiff avers that ever since the grant and issue of said Letters Patent it has been and is now the sole owner thereof and entitled as of right to the exclusive privileges conferred
9 thereby.

14. That plaintiff, as the owner of each of said three last recited Design Letters Patent, has ever since the grant and issue thereof, manufactured in large numbers, examples of each of the inventions patented thereby, and introduced the same into public

use; has expended large sums of money in so doing; has marked every such example with notice of said patent relating thereto as required by law; and that its exclusive rights in the premises, conferred by each and all of said Design Letters Patent, have been generally recognized and acquiesced in by the public.

15. That the plaintiff corporation continuously since its organization in the year 1901, has conducted and carried on, at its factory and office, in the City of Camden aforesaid, the business of manufacturing sound reproducing machines and of disc-shaped sound records adapted to be used with said machines to reproduce therefrom sound waves recorded thereon by automatic movable contact therewith of a stylus forming an operative element of said sound reproducing machines, both of which are the subject-matter of subsisting Letters Patent of the United States owned by it, including those hereinbefore recited. That the plaintiff now and since its organization has owned and operated at Camden aforesaid, a large factory established at great expenditure of labor and money, exceeding ten million dollars in value, and in manufacturing thereat said patented machines and records of a market value in excess of several million dollars annually; that its business aforesaid is exclusively of the character stated; that for the purpose of suitably and efficiently marketing its said patented product so manufactured by it, and thereby introducing the said inventions into public use and of reserving to itself by appropriate, suitable and reasonable means, the benefit and value of its patent monopoly thereon, has

10 established throughout the United States, over seven thousand specially licensed dealers distributed and apportioned throughout the country in proportion to the population of any given district, and through whom it markets and delivers its said machines and sound records to the ultimate user, under special limited title to and right of possession of the patented article accompanied by a limited right of use thereof under the patent monopoly thereon, the property of the plaintiff by virtue of said several Letters Patent hereinabove recited and others; the said limited title to and right of possession of each machine or record, and the limited license to use the same being evidenced by a recital thereof in written contracts made by the plaintiff with each of said dealers, and repeated, in substance, on each specimen of a certain label securely attached to each machine and identifying it by a certain arbitrary name and number; each of said records and label thereon, being contained in an envelope or a container also identifying it as plaintiff's patented product and on which said container is printed the aforesaid license, and that each such license is thus made specific of the specimen machine or record to which it is so attached, or in which it is contained, whereby the ultimate possessor of each of said patented machines and records, so obtained from the plaintiff through any of said specially licensed dealers aforesaid, receives full and actual notice of the limited title to and right of possession of such machine or record so acquired by him, and the nature, character, limitations and restrictions of the special patent license to use the same.

16. Plaintiff further avers that by means of its aforesaid method and system of marketing said patented machines and sound records, manufactured by it, through the instrumentality of a contract of

11 limited license qualifying the title to the article and the right to use it under the patent monopoly, it is thereby enabled to reserve to itself and obtain the benefit and value of its patent monopoly at a minimum of cost to the licensee, by fixing the cash payment of royalty to be made by such ultimate possessor and licensed user, through its said licensed dealers, of a sum sufficient only, after a reasonable allowance therefrom to the licensed dealer, to cover cost of manufacture, and a low percentage for manufacturer's profit, and hence that the value, benefit and advantage to the plaintiff of its patent monopoly thereon is realized wholly from and as a direct result of the license contract and its limitations and restrictions, among others, that the license shall be limited to a right of possession for use only, and shall be personal and non-assignable in the hands of the licensee who shall have acquired the same from any specially licensed dealer of the plaintiff; and shall authorize such use of either machine or record only when used conjointly.

17. Plaintiff further avers that the high standard of quality and excellence of the said patented machines and sound records, so manufactured by it, has been and is well and universally recognized by the licensed users of said machines and records, and by the general public having any knowledge thereof; that the said patented sound records are of special construction in respect of the character of the sound grooves whereby sound waves have been recorded thereon and may be reproduced therefrom; and that the great utility thereof in the full and perfected reproduction therefrom of the sound waves recorded thereon is due to and can only be efficiently produced therefrom by the use of the aforesaid patented machines, made by plaintiff, which for such purpose are specially adapted by reason of their novel construction and mode of operation to effect said result.

12 18. That the plaintiff ever since it acquired title to the several Letters Patent recited in paragraphs 4, 5, 7, 9 and 11 to 13 inclusive thereof, has expended large sums of money in introducing said inventions into licensed public use; in maintaining the high standard of quality and excellence of said manufactured patented products; in extensively advertising the same; in adopting and using identifying trade-marks and trade-names for its said patented machines of different styles and sizes; and in the recording on its patented sound records, of a high class of musical compositions, obtained and recorded thereon at great expense, to the end and with the result that the plaintiff's said patented products are of great practical utility; of great commercial value as physical instrumentalities, when accompanied by license or permission to use the same; and a source of great profit to the plaintiff by reason of its exclusive patent privileges controlling the disposition and use thereof under license, specific to each machine or record, as hereinbefore set forth.

19. That every patented sound reproducing machine so manu-

factured and licensed by the plaintiff as aforesaid, contains, fixedly printed on a conspicuous portion of its cabinet the plaintiff's trade-name "Victor", the plaintiff's pictorial trade-mark entitled "His Master's Voice"; the name and address of the plaintiff corporation; and the words "Patented in United States and foreign countries". It also contains, fixed to the cabinet, a metal name plate containing the word "Victor"; the plaintiff's corporate name; the style of the machine, as for example, "Victrola XVI", and the factory number of the specific machine to which it is attached. It also contains a printed label, securely attached thereto, on a conspicuous part of the machine, for example, for the machine known as Victrola XVI, on which said label is printed, in the following words, the

13 license issued therewith, governing and limiting the authorized use of said specific machine, viz.:

License Notice—Victrola XVI.

This machine is manufactured by us under our patents herein-after noted, and is licensed for use only, for the term of the patent having the longest term to run, and only with sound records, sound boxes and needles manufactured by us; and our records and sound boxes are licensed only for use with our machines. Only the right to use the said machine is granted to Victor distributors and dealers, for demonstrating purposes, with the right to the distributor to assign a like right to regularly licensed Victor dealers at the dealers' regular discount royalty, with the right to the dealers to convey the license to the public to use the said machine only when a royalty of not less than \$200.00 shall have been paid, and upon consideration that all the conditions of license shall be strictly observed. A similar right is also granted to the distributor to convey to the public the right to use this machine under the same conditions. No license to use this machine is granted to the public until the full royalty shall have been paid. This machine is not licensed for use for public entertainment for profit; for a license for such public use an extra license fee of ten per cent. (10%) of the full royalty shall be payable. Title shall remain in the Victor Talking Machine Company; also the right to repossess the said patented goods upon the breach of any of the conditions upon the repayment by the Victor Company to the user of the royalty paid by him, less 5% per annum of the full royalty for each year, or fraction of a year that the user shall have had the use thereof. The Victor Company also reserves the right for itself and its representatives to inspect, adjust and repair this machine at all reasonable times while in the possession of the user, and to instruct the user in its use, but assumes no obligation so to do. All patent rights are reserved

14 by the licensor except those hereby granted to the licensees upon the performance of the conditions noted. Any excess use, or violation of the conditions, will be an infringement of the said patents. The patents under which this machine is manufactured and licensed for use are, among others, as follows: No. 685,409, issued October 29, 1901; No. 705,126, issued July 22, 1902;

No. 814,786, issued March 13, 1906; No. 814,848, issued March 13, 1906; No. 877,184, issued January 21, 1908; No. 902,280, issued October 27, 1908; Re-issue No. 12,963, issued May 25, 1909; Re-issue No. 13,044, issued November 23, 1909; Re-issue No. 13,069, issued January 4, 1910; No. 946,015, issued January 11, 1910; No. 946,442, issued January 11, 1910; No. 947,227, issued January 25, 1910; No. 948,040, issued February 1, 1910; No. 1,020,206, issued March 12, 1912; No. 1,022,180, issued April 2, 1912; No. 1,022,582, issued April 9, 1912; Design patent No. 43,006, issued September 10, 1912; No. 1,060,550, issued April 29, 1913; No. 1,067,905, issued July 22, 1913; No. 628,813, issued July 11, 1899; and other U. S. Patents under which this machine or parts thereof are manufactured.

No license is granted to use this machine in any altered or changed condition, or with any parts not manufactured by this Company. This machine is licensed for use only in the condition, construction and arrangement in which it is put out by us, and any use of this machine, or parts thereof, in any other or altered construction or arrangement, will be construed as a violation of this license. This machine is licensed for use only with needles supplied by the Victor Company; needles will be supplied by the Victor Company, direct to any licensee of any of its patented machines at wholesale price, upon written request.

This license is good only so long as this label remains on this machine; any erasure, alteration or removal of this label, or of any of this Company's labels, or marks attached to this machine, will be construed as a violation of this license. This machine, at
 15 the expiration of the patent having the longest term to run, under which it is licensed, shall become the property of the licensee (the machine being then free of the patents, the subject-matter of the license), provided that the licensee shall have faithfully observed the conditions of license, and the Victor Company shall not have previously taken possession of the machine as herein provided.

An acceptance of this machine is an acceptance of these conditions.

All rights revert to the undersigned in the event of violation.

VICTOR TALKING MACHINE
 COMPANY,

Camden, N. J.

August 1, 1913.

20. That every sound record so manufactured and licensed by the plaintiff as aforesaid, contains, fixedly printed on the central portion thereof, the trade-name "Victor"; the pictorial trade-mark entitled "His Master's Voice"; the plaintiff's factory number of said specific sound record; the name and address of the plaintiff corporation; and the words "This record is licensed in U. S. A. for use only (these two words being underlined) and only under the conditions printed on the Victor Company's envelope containing it. No license is granted if not delivered in the envelope containing said

conditions. See conditions." The containing envelope referred to has printed upon its face, among other matter, the words "Victor Record" * * * "Manufactured by Victor Talking Machine Co., Camden, New Jersey" * * * "Caution: Always use Victor Machines with Victor Records and Victor Needles—the combination (italicized). There is no other way to get the unequalled Victor tone"; and the following notice:

"License Notice. The sound record contained in this envelope is manufactured by us under our patents hereinafter noted, and is

16 licensed in U. S. A. for use only, for the term of the patent hereinafter noted having the longest term to run, and only with talking machines, sound boxes and needles manufactured by us; and our machines and sound boxes are only licensed for use with our records. Only the right to use the said record is granted to Victor Distributors and Dealers for demonstrating purposes, with the right to the Distributor to assign a like right to regularly licensed Victor Dealers at the Dealers' regular discount royalty, with the right to the Dealers to convey the license to the public to use the said record only when a royalty of not less than the license royalty noted on the record itself shall have been paid, and upon consideration that all the conditions of license shall be strictly observed. A similar right is also granted to the Distributor to convey to the public the right to use the record under the same conditions. No license to use this record is granted to the public until the full royalty shall have been paid. This record is not licensed for use for public entertainment for profit; for a license for such public use an extra license fee of ten per cent. (10%) of the full royalty shall be payable. Title shall remain in the Victor Talking Machine Company; also the right to repossess the said patented goods upon the breach of any of the conditions upon the repayment by the Victor Company to the user of the royalty paid by him, less 10% per annum of the list royalty for each year, or fraction of a year, the user shall have had use thereof. This record is licensed only for the purpose of reproducing sound directly from the record, and for no other purpose. Any attempt at copying, or counterfeiting, this record will be construed as a violation of the said patent rights and conditions. All patent rights are reserved by the licensor except those hereby granted to the licensee upon the performance of the conditions noted. Any excess use, or violation of the conditions, will be an infringement of the said patents. The patents under which this record is manufactured and licensed for use are, among others, as follows: No. 739,318, issued September 22, 17 1903; No. 749,092, issued January 5, 1904; No. 778,976, issued January 3, 1905; No. 896,059, issued August 11, 1908, and other U. S. patents under which this record is manufactured.

"This record is licensed for use only with needles supplied by the Victor Talking Machine Company; needles will be supplied by the Victor Talking Machine Company direct to any licensee of any of its patented machines at wholesale price, upon written request.

"This record at the expiration of the patent having the longest term to run, under which it is licensed, shall become the property

of the licensee, (the record being then free of the patents the subject-matter of the license) provided that the licensee shall have faithfully observed the conditions of license, and the Victor Company shall not have previously taken possession of the record as herein provided.

"An acceptance of this record is an acceptance of these conditions.

"All rights revert to the undersigned in the event of violation.

"August 1st, 1913.

**"VICTOR TALKING MACHINE
COMPANY,**

Camden, N. J."

21. That on or about the first day of August, 1913, the plaintiff adopted and has since continuously employed, a single form of written license contract with all of its aforesaid licensed dealers wherein and whereby all the terms, conditions, restrictions and limitations set forth in the aforesaid label notices, affixed to each patented machine and record, respectively, hereinbefore recited were set forth, in addition to which the said licensed dealer, being in each case a party to said contract by express recital therein and by his signed assent thereto, was authorized and licensed on receipt of a patented machine or sound record aforesaid, from the plaintiff either directly or through a paramount distributing dealer of the plaintiff licensed under like limitations and conditions, to dispose of the same, with license to use it, on the following terms and conditions only, as in said contract expressed as follows:

"The Victor Talking Machine Company (hereinafter referred to as the Victor Company), from August 1st, 1913, licenses only the use of its patented goods under the conditions hereinafter noted, the title remaining in the Victor Company with the right to repossess and retake at any time the patented goods upon the payment to the user of the royalty paid by him for the use of said patented goods, less 5% per annum of the list royalty as to machines and 10% per annum of the list royalty as to records, for each year, or fraction of a year, the user shall have had the use thereof; this right, however, to be exercised only at the will of the Victor Company. * * *

"All Victor talking machines, records and sound boxes are covered by Letters Patent included in the list hereinafter noted, owned and controlled by the Victor Company, and they are not sold, but licensed for use only under the conditions noted on the labels accompanying the goods, and as herein provided, and any attempted sale, or any use of any of the said patented goods in violation of the conditions, and in excess of the license, will constitute an infringement of the said patents of the Company. The license is granted for the term of the patent protecting the goods having the longest term to run, noted upon the license label * * *

"A limited license is granted to the distributor accepting the conditions hereof to use the Victor patented machines, records and sound boxes procured by the distributor from the Victor Company

19 under the said conditions of license, for demonstrating purposes, and in distributing the said goods to assign the same right to any regularly licensed dealer of the Victor Company, with the further right to such dealer to assign the right to the public to use the said goods for the purpose of reproducing sound therefrom in accordance with the patents, upon the payment of the full list royalty or license fee, as per the current schedule as issued by the Victor Company, a copy of which accompanies this agreement.

* * *

"* * * The license to the public is and shall be only a limited license to use the said patented goods herein noted, for the purpose only of reproducing sound, under and subject to all the conditions herein noted, and to the conditions noted upon the labels accompanying the goods, among which are the following:

"Victor machines are licensed for use only with Victor records.

"Victor records are licensed for use only with Victor machines.

"Victor machines and records are licensed for use by the public only when the full list royalty shall have been paid.

"Only the license to use said Victor patented goods is granted, and all other patent rights are retained by the Victor Company;—any use in excess of the rights granted, and any violation of the conditions, will constitute infringement of the Victor Company's patents and render the parties so using without right, or violating any of the conditions, liable to an action for infringement of the said Victor Company's patents. A breach of any of the conditions on the part of the distributor will render him also liable not only for infringement of the patents but for an action on contract, or other proper remedy.

"The Victor machines, sound boxes and records, at the expiration of the patent having the longest term to run, under which the goods are licensed, shall become the property of the licensee (the goods being then free of the patents, the subject-matter of the license), provided that the licensee shall have faithfully observed the conditions of license, and the Victor Company shall not have previously taken possession of the goods as herein provided."

20 22. That all of the patented sound reproducing machines and sound records manufactured and licensed by the plaintiff since August 1, 1913, have been so licensed under and pursuant to the aforesaid contracts of license with plaintiff's licensed distributing dealers dated August 1, 1913, and not otherwise; and all of said patented sound reproducing machines and sound records so distributed and marketed to the ultimate user, by or through said licensed distributors have been marked with notice, by means of the label notice hereinbefore recited, setting forth in full the nature and character of the limited license to use and of the qualified title to or right of possession of the machine or record employed therefor, which such ultimate user acquires thereto from the plaintiff through said licensed distributing dealer; and the plaintiff avers that the defendants had full knowledge not only of the terms and conditions hereinbefore stated of and concerning said distributors' license contracts

in the premises, but of said label notices thereof on each machine or record, before and at the time of the commission of the acts hereinafter complained of and charged against them.

23. That plaintiff since said first day of August, 1913, has created and established, under said license system, recited in said liberal contracts of license and label notices thereof, a large public demand for said patented machines and sound records, to the benefit and advantage as well of the public who became licensed users of said machines and records, as of the plaintiff as manufacturer

21 and patent licensor thereof. And the plaintiff further avers that it has uniformly treated all its licensed distributing dealers and the public dealing with them, in said goods, on equal terms as to royalty rates, save the commissions or discounts allowed to and earned by such licensed distributing dealers of the plaintiff for their services in marketing said patented articles and the patent license to use the same, and which latter is subject only to conditions, restrictions and limitations consistent with the qualified title passed to the licensed user and are reasonable and tend to an enjoyment by the public, in the use of said patented machines and records at a minimum payment of royalty therefor, and to the benefit and advantage of the plaintiff from its patent monopoly by enabling it to maintain the high standard of quality of said machines and records; to increase the demand therefor; to earn the increased aggregate of manufacturer's profit thereon, and to maintain its license contracts, which latter would be destroyed if the conditions and limitations of said licenses were ignored and violated by a licensed distributor in violation of his contract aforesaid, or by any person, who, obtaining from him such patented machine or record, violates the terms of the license to use, under which he obtained said patented machine or record, or who fraudulently attempts, with full notice as aforesaid, to part with his qualified title to or right of possession thereof.

24. That at divers times since the first day of August, 1913, and since the making of said license contracts, the said defendants, with full knowledge of the premises aforesaid, have procured covertly and on various pretenses, directly and indirectly, from licensed distributing dealers of the plaintiff, and have in their possession large numbers of said patented machines and sound records, which have

22 been, since the date last aforesaid, manufactured by the plaintiff and placed with its said licensed distributing dealers under said license contracts, all of which said machines and records were marked with label and other notices hereinbefore recited, and have, in wilful violation of the limited license to use only, under which they, said defendants, obtained possession of said machines and records, and of the qualified title thereto so obtained, offered the same for sale and have sold large numbers thereof to the public, in some cases at less than said defendants paid for the same to the aforesaid licensed distributors, in disregard of the plaintiff's right of property therein, and in all cases against the objection and protest of the plaintiff and in violation of the exclusive rights vested in it by the said several Letters Patent and in infringement

thereof, to the manifest injury of the plaintiff and to its great loss and damage. And the plaintiff avers that the defendants have threatened by advertisement in the public newspapers and by public display of plaintiff's patented machines and sound records, with offers to make unqualified sales thereof, to continue these aforesaid unlawful acts.

25. Plaintiff therefore needs equitable relief in the premises and prays:

I. For a writ or writs of injunction, preliminary until hearing and perpetual thereafter, restraining said defendants from any further violation of said several Letters Patent, and of the plaintiff's exclusive rights thereunder.

II. For a writ or writs of injunction, preliminary until hearing and perpetual thereafter, restraining said defendants from selling or offering for sale, or attempting to part with the title and right of possession of any of plaintiff's said patented machines and
23 sound records which said defendants obtained from any of plaintiff's licensed distributing dealers, in violation of the license and its terms, conditions and limitations, contained and set forth in the label notices attached to each of said patented machines and sound records respectively.

III. For an accounting of the profits accrued to or received by defendants, and the damages suffered by plaintiff, by reason of the defendants' unlawful acts complained of, in infringement of plaintiff's rights in the premises; and for costs of this action.

IV. And the plaintiff prays the process of subpoena and respondentum be issued to said defendants, Jesse I. Straus, Percy S. Straus and Herbert N. Straus individually and jointly, and as copartners trading as R. H. Macy & Co., commanding them and each of them to appear and make answer hereto and to abide by such order and decree as this Court may make in the cause. The plaintiff hereby waives verification of the defendants' answer to this bill of complaint.

VICTOR TALKING MACHINE
COMPANY,

By RALPH L. FREEMAN, *Secretary*.

FENTON & BLOUNT,

Solicitors for Plaintiff, Room 224

1 Broadway, New York, N. Y.

FREDERICK A. BLOUNT,

HECTOR T. FENTON,

Of Counsel for Plaintiff.

24 *Mandate of U. S. Circuit Court of Appeals for the Second Circuit. Filed July 28, 1915.*

STATE OF PENNSYLVANIA,

County of Philadelphia, ss:

Ralph L. Freeman, being duly sworn, says he is Secretary of Victor Talking Machine Company, the plaintiff above named, that de-

ponent has read the foregoing bill of complaint and knows the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

RALPH L. FREEMAN.

Sworn to and subscribed before me this 18th day of November, A. D. 1914.

[SEAL.]

ALEXANDER PARK,

Notary Public.

Commission expires February 6, 1917.
705 Witherspoon Building, Philadelphia.

Mandate.

UNITED STATES OF AMERICA, ss:

The President of the United States of America to the Honorable the Judges of the District Court of the United States for the Southern District of New York, Greeting:

Whereas, lately in the District Court of the United States for the Southern District of New York, before you, or some of you, in a cause between Victor Talking Machine Company and Jesse I. Straus, et al., trading as R. H. Macy & Co., a decree was entered in the office of the clerk of said Court on the 26th day of March, 1915, in the words and figures following, to wit:—

“And now March 26, 1915, this cause having heretofore come on to be heard on defendants’ motion to dismiss the bill of complaint herein on the ground stated in said motion filed pursuant to Equity Rule 29, as appears of record; and the same having been argued by counsel for the respective parties, it is now ordered, adjudged and decreed that the said motion be and the same is hereby denied as to the first and third grounds assigned in support thereof, and granted as to the second ground thereof; and that the said bill of complaint be and the same is hereby dismissed, with costs.

AUGUSTUS N. HAND,
United States District Judge.”

as by the inspection of the transcript of the record of the said Court, which was brought into the United States Circuit Court of Appeals from the Second Circuit, by virtue of an appeal agreeably to the act of Congress, in such case made and provided, fully and at large appears.

And whereas, in the present term of October, in the year of our Lord one thousand nine hundred and fifteen, the said cause came on to be heard before the said United States Circuit Court of Appeals for the Second Circuit, on the said transcript of record, and was argued by counsel: On consideration whereof, it is hereby

Ordered, Adjudged and Decreed,

That the decree of said District Court be and it hereby is affirmed

with costs, taxed at the sum of \$25.00, and with instructions to allow the complainant to amend its bill if it be so advised. You, therefore, are hereby commanded that such further proceedings be had in said cause, in accordance with the decision of this court as according to right and justice, and the laws of the United States, ought to be had, the said appeal notwithstanding.

26 Witness, the Honorable Edward D. White, Chief Justice of the United States, the 28th day of July, in the year of our Lord one thousand nine hundred and fifteen.

WM. PARKIN,

*Clerk of the United States Circuit Court
of Appeals for the Second Circuit.*

(Endorsed: E 12-54. United States Circuit Court of Appeals for the Second Circuit. Victor Talking Machine Co. v. Jesse I. Straus, et al. Mandate. U. S. District Court, S. D. of N. Y. Filed July 28, 1915.)

Order Granting Leave to Amend Bill.

At a Stated Term of the United States District Court for the Southern District of New York, held in the Post Office Building, in the City of New York, Borough of Manhattan, on the 4th day of August, 1915.

Present: Hon. Augustus N. Hand, U. S. D. J.

VICTOR TALKING MACHINE COMPANY, Plaintiff-Appellant,
against

JESSE I. STRAUS, PERCY S. STRAUS, and HERBERT N. STRAUS, Individually and as Co-partners Trading under the Name of R. H. Macy & Company, Defendants-Appellees.

This cause having been tried before this Court and a final decree having been entered therein on the 26th day of March, 1915,
27 dismissing the bill of complaint with costs to defendants to be taxed, from which decree an appeal was duly allowed and prosecuted in the United States Circuit Court of Appeals for the Second Judicial Circuit, from which court a mandate was issued to this court, dated July 29, 1915, affirming said decree with costs in the sum of \$25 as taxed in the said Court of Appeals:

Therefore, upon consideration thereof, it is

Ordered, Adjudged and Decreed that the said mandate be entered, and that it be made and hereby is made the order, judgment and decree of this Court, and it is further

Ordered, Adjudged and Decreed that the motion to dismiss the complaint herein be granted as to the second ground set forth in said motion, and that the motion to dismiss the complaint herein be denied as to the first and third grounds set forth in said motion; and it is further

Ordered, Adjudged and Decreed that the complainant be allowed

to amend its complaint if it be so advised, within twenty days after the entry of this order.

Enter.

AUGUSTUS N. HAND,
United States Judge.

28 In the District Court of the United States for the Southern District of New York.

In Equity. No. 12-54.

VICTOR TALKING MACHINE COMPANY, Plaintiff,

v.

JESSE I. STRAUS, PERCY S. STRAUS, and HERBERT N. STRAUS, Individually and Jointly and as Co-partners, Trading as R. H. Macy & Co., Defendants.

Amendment of Bill of Complaint.

And now, August 23, 1915, comes the plaintiff, the Victor Talking Machine Company, by Fenton & Blount, its solicitors and counsel, and by leave of the Court obtained, as appears by Order made and entered August 4, 1915, amends its Bill of Complaint heretofore filed in the above-entitled cause, in the following particulars:

1. By inserting the following new paragraphs as Paragraphs 23A and 23B:

23A. That at divers times since the making of said limited license contracts by and between the plaintiff and its distributing dealers, recited and set forth in the preceding paragraph 22 and elsewhere herein, to wit, since the 1st day of August 1913, the said several defendants, not being such licensees of the plaintiff, and being members of the general unlicensed public, and having no contractual relation with plaintiff nor with any of its licensed distributors or licensed dealers, and with full knowledge of said distributors' and dealers' license contracts and of the aforesaid terms, conditions and limitations thereof, have, by various pretences, directly and indirectly, induced one or more of plaintiff's said licensed distributors

29 distributors and licensed dealers to violate his or their said contracts with the plaintiff with respect to the condition that no patented machine or record, of the character aforesaid, should be delivered to or license to use the same conferred upon, any unlicensed member of the general public until the full license price printed or otherwise stated upon the license label affixed to such machine or record, had been paid by such unlicensed person to such licensed distributor or licensed dealer, and that until such full license price had been paid as aforesaid, no title to the machine or record or to the special license to use the same should pass to the purchaser; and plaintiff avers that, in pursuance of said pretences and inducements so made by defendants, to one or more of plain-

tiff's licensed distributors or dealers, since said 1st day of August, 1913, and prior to the filing of this bill of complaint, said defendants obtained from one or more of said licensed distributors or dealers and now have in their possession a large number of plaintiff's said patented machines and sound records, so unlawfully acquired from plaintiff's said distributors or dealers at much less, in each instance, than the license price stated in the label license affixed to each of such machines and records respectively, and so unlawfully acquired possession of the same with notice, by means of such label license on each of such machines or records, of the license price required to be paid therefor as a condition precedent to the lawful right of possession and use of such patented machine or record, and hence that no title to the said machines or records or license to use the same could be or was acquired by said defendants.

23B. That at divers times since the making of said limited license contracts by and between the plaintiff and its distributing dealers, recited and set forth in the preceding paragraph 22 and elsewhere herein, to wit, since the 1st day of August, 1913, the said several defendants, not being such licensees of the plaintiff, and being mem-

bers of the general unlicensed public, and having no contractual relation with plaintiff nor with any of its licensed distributors or licensed dealers, and with full knowledge of said distributors' and dealers' license contracts and of the aforesaid terms, conditions and limitations thereof, have, by various pretences, directly or indirectly, induced one or more of plaintiff's said licensed distributors and licensed dealers to violate his or their said contracts with the plaintiff with respect to the condition that no patented machine or record, of the character aforesaid, should be delivered to, or license to use the same conferred upon, any unlicensed member of the general public until the full license price printed or otherwise stated upon the license label affixed to such machine or record, had been paid by such unlicensed person to such licensed distributor or licensed dealer, and that until such full license price had been paid as aforesaid, no title to the machine or record or to the special license to use the same should pass to the purchaser; and plaintiff avers that, in pursuance of said pretences and inducements so made by defendants, to one or more of plaintiff's licensed distributors or dealers, since said 1st day of August, 1913, and prior to the filing of this bill of complaint, said defendants obtained from one or more of said licensed distributors or dealers and now have in their possession a large number of plaintiff's said patented machines and sound records, so unlawfully acquired from plaintiff's said distributors or dealers at much less in each instance, than the license price stated in the label license affixed to each of such machines and records respectively, and which they are proposing and threatening to dispose of to the unlicensed general public at less than the price stated in the label license affixed thereto; which said machines and records said defendants so unlawfully acquired possession of as aforesaid, with notice, by means of such label license on each of such machines or records, of the license price required to be paid therefor as a con-

31 dition precedent to the lawful right of possession and use of such patented machine or record, and hence that no title to the said machines or records or license to use the same could be or was acquired by said defendants, or their vendees.

2. By amending paragraph 24 of the bill by inserting the parts noted in (parentheses), so that said paragraph as a whole will read as follows:

24. That at divers times since the first day of August, 1913, and since the making of said license contracts, the said defendants, with full knowledge of the premises aforesaid, have procured covertly and on various pretences, directly or indirectly, from licensed distributing dealers of the plaintiff (at less than the license price or money royalty set forth in the license label affixed to each machine or record, and at which said price or royalty only said licensed distributing dealers were authorized and empowered in and by their aforesaid contracts with plaintiff to part with possession of said patented machines and records and conditional title to and license to use the same), and have in their possession large numbers of said patented machines and sound records (so acquired) which have been, since the date last aforesaid, manufactured by the plaintiff and placed with its said licensed distributing dealers under said license contracts, all of which said machines and records were marked with label and other notices hereinbefore recited, and have, in wilful violation of the limited license to use only, under which they, said defendants, obtained possession of said machines and records, and of the qualified title thereto so obtained, offered the same for sale and have sold large numbers thereof to the public (and are proposing and threatening to dispose of the remainder thereof at less than the list price stated in the label license aforesaid, and) in some cases at less than said defendants paid for the same to the aforesaid licensed distributors, in disregard of the plaintiff's right of property therein, and in all cases against the objection and protest of the plaintiff and in violation of the exclusive rights vested

32 in it by the said several Letters Patent and in infringement thereof, to the manifest injury of the plaintiff and to its great loss and damage. And the plaintiff avers that the defendants have threatened by advertisement in the public newspapers and by public display of plaintiff's patented machines and sound records, with offers to make unqualified sales thereof, to continue these aforesaid unlawful acts.

FENTON & BLOUNT,
Solicitors for Plaintiff.

STATE OF PENNSYLVANIA,
City of Philadelphia, ss:

Ralph L. Freeman, being duly sworn, says he is Secretary of the Victor Talking Machine Company, the plaintiff above named, that he has read the foregoing amendment of bill of complaint and knows the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

RALPH L. FREEMAN.

Sworn to and subscribed before me this 14th day of September, 1915.

[SEAL.]

ALEXANDER PARK,
Notary Public.

Commission expires February 6, 1917.
1416 Widener Building, Philadelphia.

Endorsed.

September 15, 1915.—By consent, ordered that this verified copy of amendment be filed nunc pro tunc as of August 23, 1915, the date of the filing of the original and in substitution therefor.

C. M. HOUGH,
U. S. Judge.

33 In the District Court of the United States for the Southern District of New York.

In Equity. No. 12, p. 54.

VICTOR TALKING MACHINE COMPANY, Plaintiff,
against

JESSE I. STRAUS, PERCY S. STRAUS, and HERBERT N. STRAUS, Individually and as Co-partners, Trading as R. H. Macy & Co., Defendants.

Please Take Notice that the defendants will make a motion in this Court at a Term to be held at the Court House in the Post Office Building, in the Borough of Manhattan, City, County and State of New York, on the 9th day of September, 1915, at the opening of the Court or as soon thereafter as counsel can be heard, to dismiss the amended bill of complaint herein upon the following grounds:

First. That it appears upon the face of the said amended bill of complaint that this Court has not jurisdiction of the alleged cause of action set forth therein;

Second. That it appears upon the face of the amended bill of complaint that the facts therein set forth are insufficient to constitute a valid cause of action in equity;

Third. That it appears upon the face of the said amended bill of complaint that the method and system of marketing patented machines and sound records manufactured by the complainant is wholly contrary to law and in violation of and contrary to the statutes of the United States in such case made and provided, and more especially of a certain statute passed July 3, 1890, known as Chapter 647 and more particularly described as "An Act to protect Trade and Commerce against Unlawful Restraints and Monopolies," and of the various acts amending, supplementing and extending the same;

and that at said time and place the defendants will pray the Court

for judgment dismissing the amended complaint with costs, and for such other relief as to the Court may seem proper.

Dated New York, September 1st, 1915.

WISE & SELIGSBURG,
*Solicitors for Defendants, 15 William Street,
Borough of Manhattan, New York City.*

EDMOND E. WISE,
Of Counsel.

To Fenton & Blount, Esqs., Solicitors for Plaintiff, Room 224, 1 Broadway, New York City, N. Y.

35 In the District Court of the United States for the Southern District of New York.

In Equity. No. 12, p. 54.

VICTOR TALKING MACHINE COMPANY, Plaintiff,

v.

JESSE I. STRAUS, PERCY S. STRAUS, and HERBERT N. STRAUS, Individually and Jointly and as Co-partners, Trading as R. H. Macy & Co., Defendants.

Final Decree.

And now, September 15, 1915, this cause having heretofore come on to be heard on defendants' motion to dismiss the amended bill of complaint herein on the grounds stated in said motion, filed pursuant to Equity Rule 29, as appears of record; and the same having been argued by counsel for the respective parties, it is now

Ordered, Adjudged and Decreed that it appears upon the face of the amended bill of complaint that the facts therein set forth are insufficient to constitute a valid cause of action in equity, and that therefore it is

Further Ordered, That the said amended bill of complaint be, and the same hereby is, dismissed, with costs.

C. M. HOUGH, D. J.

Sept. 15, 1915.

36 In the District Court of the United States for the Southern District of New York.

In Equity. No. 12, p. 54.

VICTOR TALKING MACHINE COMPANY, Plaintiff,

v.

JESSE I. STRAUS, PERCY S. STRAUS, and HERBERT N. STRAUS, Individually and as Co-partners, Trading as R. H. Macy & Co., Defendants.

Petition for Allowance of Appeal.

And now, September 15, 1915, comes the complainant, conceiving itself aggrieved by the decree entered herein on the 15th day of September, 1915, dismissing its amended bill of complaint, and hereby appeals therefrom to the United States Circuit Court of Appeals for the Second Circuit, for the reasons specified in the assignment of errors filed herewith, and prays that such appeal be allowed and that a citation issue directed to said defendants commanding them to appear before said appellate tribunal to do and receive what may appertain to justice to be done in the premises, and that a transcript of the record and proceedings in said cause, upon which said decree is based, may be sent to said United States Circuit Court of Appeals for the Second Circuit, pursuant to the statute.

FENTON & BLOUNT,

Solicitors for Plaintiff.

Order Allowing Appeal.

And now, September 15, 1915, on presentation and consideration of the foregoing petition, it is ordered that said appeal be allowed as prayed, and that a supersedeas and costs bond on appeal
37 be filed by appellant in the penal sum of two hundred and fifty dollars, conditioned that appellant shall prosecute its said appeal to effect and answer all damages and costs if it fail to make its plea good, execution for costs being stayed pending such appeal.

C. M. HOUGH,

U. S. District Judge.

In the District Court of the United States for the Southern District of New York.

In Equity. No. 12, p. 54.

VICTOR TALKING MACHINE COMPANY, Complainant,

v.

JESSE I. STRAUS, PERCY S. STRAUS, and HERBERT N. STRAUS, Individually and as Co-partners, Trading as R. H. Macy & Co., Defendants.

Assignments of Error and Prayer for Reversal.

And now, September 15, 1915, comes the complainant, the Victor Talking Machine Company, by its solicitors and counsel, and says that in the decree entered in said cause on the fifteenth day of September, 1915, dismissing its amended bill of complaint, there is manifest error, of which the following are specifications:

1. The Court below erred in entertaining any question, on defendants' motion to dismiss, other than whether or not the matter of the amendment to the bill was in accord as to subject-matter, with the leave to amend ordered by the mandate of the Court of Appeals as defined by its decision and opinion on the previous appeal from a similar motion to dismiss.

38 2. The Court below erred in considering and deciding that the amended bill of complaint did not present a good cause of action, and entering the decree appealed from dismissing the amended bill on that ground.

3. The Court below erred in its interpretation of the cause of action presented by the amended bill of complaint.

4. The Court below erred in its interpretation of the nature and scope of the patent monopoly, under the statute, as applied to the facts and circumstances recited and charged in the amended bill of complaint.

5. The Court below erred in its interpretation of the nature, scope and legal effect of the license contract under which the plaintiff marketed its patented goods and subject to the conditions and limitations of which, the defendants, with full notice thereof, covertly acquired possession of the machines and records in question.

6. The Court below erred in dismissing the amended bill of complaint and refusing to order the defendants to make answer thereto on the merits, pursuant to Equity Rule 29.

7. The Court below erred in entering the decree of September 15, 1915, appealed from.

Wherefore the appellant (plaintiff below) prays that said decree be reversed and set aside, and that the cause be remanded to the trial court with directions to enter a new decree requiring the defendants to answer the amended bill on the merits.

FENTON & BLOUNT,
Solicitors for Complainant-Appellant.

MEMO.—Supersedeas bond on appeal, in the penal sum of two hundred and fifty dollars, approved and filed.

- 39 By the Honorable Charles M. Hough, one of the Judges of the District Court of the United States for the Southern District of New York, in the Second Circuit.

To Jesse I. Straus, Percy S. Straus, and Herbert N. Straus, individually and as co-partners, trading as R. H. Macy & Co., Greeting:

You are hereby cited and admonished to be and appear before a United States Circuit — of Appeals for the Second Circuit, to be holden at the Borough of Manhattan in the City of New York, in the District and Circuit above named, on the 14th day of October, 1915, pursuant to an appeal filed in the clerk's office of the District Court of the United States for the Southern District of New York, wherein the Victor Talking Machine Company is plaintiff-appellant and you are defendants-respondents to show cause, if any there be, why the decree in said appeal mentioned should not be corrected and speedy justice should not be done in that behalf.

Given under my hand at the Borough of Manhattan, in the City of New York, in the District and Circuit above named, this fifteenth day of September, in the year of our Lord One Thousand Nine Hundred and Fifteen, and of the Independence of the United States the One Hundred and Fortieth.

C. M. HOUGH,
*Judge of the District Court of the United
States for the Southern District of New
York, in the Second Circuit.*

Due service of a copy of the within Citation is hereby admitted this 15th day of September, 1915.

WISE & SELIGSBERG,
15 William Street, Solicitors for Appellees.

- 40 In the District Court of the United States for the Southern District of New York.

In Equity. No. 12, p. 54.

VICTOR TALKING MACHINE COMPANY, Plaintiff,

v.

JESSE I. STRAUS, PERCY S. STRAUS, and HERBERT N. STRAUS, Individually, Jointly, and as Co-partners, Trading as R. H. Macy & Co., Defendants.

Praeceptum for Transcript on Appeal.

To the Clerk of U. S. District Court:

The following papers and none other shall be included in and constitute the record on appeal:

1. Bill of complaint.
2. Mandate of Circuit Court of Appeals on first appeal.
3. Order of August 4, 1915, granting leave to amend.
4. Verified copy of amendment to bill of complaint.
5. Defendants' motion to dismiss and reasons in support.
6. Decree of September 15, 1915, dismissing amended bill.
7. Petition for and order allowing appeal.
8. Assignments of error and prayer for reversal.
9. Citation.
10. Stipulation as to contents of record, and this præcipe.
11. Certificate.

FENTON & BLOUNT,
Solicitors for Plaintiff-Appellant.

Approved:
WISE & SELIGSBURG,
Solicitors for Defendants.

41 *Appendix.*

AUGUSTUS N. HAND, *District Judge:*

This is a motion to dismiss the bill of complaint brought under Rule 29 of the new Equity Rules. The suit is for infringement of patents.

The complainant alleges that it is the owner of various patents covering the Victor Talking Machines and Sound Records, that it has manufactured under these patents, has appointed licensed dealers with the right to convey the license to the public to use its machines and sound records only when a royalty has been paid of not less than two hundred dollars for the use of a machine and of not less than that noted on the record for the use of a sound record. Every machine and sound record has accompanying it a notice of license to the foregoing effect and also to the effect that the patented article is to be used only with the machine, sound boxes, sound records and needles manufactured by the complainant. The license also provides that it is good only when the label containing the notice of license is attached to the machine. It likewise provides that the title to the patented goods remains in the Victor Talking Machine Company for the term of the patent having the longest term to run and that upon the expiration of such patent the goods shall become the property of the licensee if he shall have observed the conditions of the license. The license further provides that upon violation of any of the terms of the license, the Victor Talking Machine Company may upon repayment of the amount of the royalty less five per cent. per annum for the use retake the patented goods from the user. The complaint does not charge the defendants with having used the patented goods without labels or with needles other than those manufactured by the complainant, but charges as the sole act of infringement that the defendants, though lawfully in possession of the patented articles have exceeded the limited use granted by the license, in that they have sold the articles outright, in

some cases for less than they have paid for the same to the licensed dealers and are threatening to continue this course. The complainant alleges that by its system of marketing its patented machines and sound records it is enabled to obtain the benefit of its patents "at a minimum of cost to the licensee."

The real purpose of the license is obviously to maintain the market for the talking machines and sound records at the prescribed royalty and the essential point involved is whether such a limitation of the use in the mode I have described is within the rights of the owner of the patents.

I may say at the outset that if the patentee has such a right under the patent law, there can be no doubt that this Court, and not the State Court, is the proper tribunal to adjudicate the issues between the parties. I also think that no provision of the Sherman Act or Clayton Act affects the matters at issue. The infringement charged is for selling when defendants are alleged to possess nothing more than a non-assignable right to use. The whole dispute is as to the extent of the monopoly granted by the patent. There is no combination shown in restraint of trade or to fix prices, nor any contract substantially lessening competition. The only question is whether a patentee who has once received his royalty covering the use of the patented article during the entire life of the patent can by his license prevent the transfer of the use by his licensee in a case where upon the expiration of the patent there is a sale of the machine itself to the ultimate possessor conditioned upon the observance of the terms of the license. If the patentee has such a right I

43 think an attempt to sell the machine in derogation of the license for a limited use is an infringement and a remedy for infringement lies in the United States Court, which has general jurisdiction over patent causes. As was said in *Henry v. Dick Co.*, 224 U. S. 1, the complainant might have waived the tort and sued upon the contract of license itself, then the remedy would be at law in the State Court. But he has chosen naturally the more adequate remedy. This being so, the issue is reduced to whether the right declared upon is one given by the patent law.

In the case of *Henry v. Dick Co.*, the license read as follows:

"This machine is sold by the A. B. Dick Co. with the license restriction that it may be used only with the stencil paper, ink and other supplies made by A. B. Dick Company, Chicago, U. S. A."

In that case, Sidney Henry sold to Miss Skou a can of ink suitable for use upon the patented mimeograph with knowledge of the above license agreement and with the expectation that it would be used in connection with said mimeograph. The Court held by a divided vote of four to three, the Chief Justice and Justices Hughes and Lamar dissenting, that the act of Henry constituted an infringement of the patent.

In the case of *Bauer v. O'Donnell*, 229 U. S. 1, the notice of license was as follows:

"This size package of Sanatogen is licensed by us for sale and use at a price not less than One Dollar (\$1.00). Any sale in violation of this condition, or use when so sold, will constitute an infringe-

ment of our patent—under which Sanatogen is manufactured,—a purchase is an acceptance of this condition. All rights revert to the undersigned in the event of violation."

The Supreme Court decided this case by a divided vote.
44 Mr. Justice Day, who did not sit in the case of *Henry v. Dick*, wrote the opinion and the Chief Justice, Justice Hughes and Justice Lamar (who dissented in the *Dick* case) and Justice Pitney constituted the majority and Justices McKenna, Holmes, Lurton and Van Devanter, who were the majority in the *Dick* case, constituted the minority. The patent law grants:

"To the patentee, his heirs or assigns for the term of seventeen years the exclusive right to make, use and vend the invention."
R. S. Sec. 4884.

The majority of the Court in *Bauer v. O'Donnell*, supra, held that the patent law did not under the exclusive right secured by the statute to "vend" a patented article grant the right "to dictate the price at which subsequent sales of the article may be made" when a sale has once taken place. It is to be noticed that the license agreement in that case attempted to limit the use to cases in which a price of \$1 should be paid upon all sales and contained a clause revesting title in the patentee wherever the license agreement should be violated in this respect. The most striking difference between that case and the case at bar lies in the fact that here compliance with the license in respect to price or royalty is made a condition precedent to the passing of title, while in *Bauer v. O'Donnell* such compliance was made necessary to preventing the revesting of title by a condition subsequent. This difference seems to me only formal. In fact, I can see no distinction between permanently parting with the use for a stipulated sum and parting with the title to a patented article so far as the right to restrict the price to the consumer is concerned. But, if there is such a difference, it cannot, I think, be determined by whether the condition of the passing of title is precedent or subsequent if in each event the title is designed ultimately to be

45 in the licensee, provided he has paid the designated price.

It will be said that a further difference between this case and *Bauer v. O'Donnell* lies in the fact that there the use granted was confessedly assignable because the license agreement contemplated successive sales, while here the licensee was given no right, express or implied, to transfer the use. The point, however, upon which that case turned was that the patentee had no further interest in the use, and unless the licensee violated some provision of the license he had parted with his interest in it because he had received the entire royalty. Such is the exact situation here.

The complainant, however, most urgently argues that the case of *Henry v. Dick* is not overruled and should determine my action in its favor. In *Bauer v. O'Donnell* that case is distinguished by Mr. Justice Day upon the ground that there the use of the machine granted was limited in that it was to be with other articles than the patented apparatus. To quote his exact language:

"There is no showing of a qualified sale for less than value for limited use with other articles, as was shown in the *Dick* case. There

was no transfer of a limited right to use this invention, and to call the sale a license to use is a mere play upon words."

In other words, the Dick case must be restricted to the facts there presented and cannot in view of the later case of *Bauer v. O'Donnell* be extended to cover a case like the present, when the patentee has permanently parted with the entire right to use and has no longer any interest in the royalties from subsequent sales. If the defendants should use the machines without complainant's needles,

the rule laid down in the Dick case would apply, but no such
46 infringement is alleged. In other words, the interest of the licensor in the use is exhausted except as to its right to have the machine used with the unpatented needles of its manufacture.

As Mr. Justice Day further said in *Bauer v. O'Donnell*:

"The jobber from whom the appellee purchased had previously bought, at a price which must be deemed to have been satisfactory, the packages of Sanatogen afterwards sold to the appellee. The patentee had no interest in the proceeds of the subsequent sales, no right to any royalty thereon or to participation in the profits thereof. The packages were sold with as full and complete title as any article could have when sold in the open market, excepting only the attempt to limit the sale or use when sold for not less than one dollar. In other words, the title transferred was full and complete, with an attempt to reserve the right to fix the price at which subsequent sales could be made."

In the case of *Bauer v. O'Donnell*, I think the Court felt the same difficulty in supporting the attempted restrictions that Courts have often found in giving effect to conditions that are repugnant to the general terms of a conveyance or devise. If this were a case of first impression I might feel that no sufficient reason exists for holding that a patentee could not attach such limitations to the future use of his patented goods as he might choose irrespective of whether he had received a full royalty or not. I think, however, the case of *Bauer v. O'Donnell* holds to the contrary.

I can, after careful consideration, see no difference, except a purely formal one, between that case and the one under consideration, and for this reason I am of the opinion that the bill must be dismissed.

47

Opinion of C. C. A. on First Appeal.

Before Lacombe, Coxe and Rogers, Circuit Judges.

This cause comes here on appeal from a decree entered by the District Court of the United States for the Southern District of New York dismissing the plaintiff's bill.

The Victor Talking Machine Company is a corporation organized and existing under the laws of the State of New York.

The defendants are each and all of them citizens of the State of New York, and constitute a co-partnership under the trade name of R. H. Macy & Company, and carry on business in the City of New York.

The Victor Talking Machine Company claims to be the sole owner of Letters Patent of the United States No. 947,227 issued to it January 25, 1910, as assignee of John C. English, and of certain other patents relating to Talking Machines and Records and which are not here specified.

The defendants were impleaded in the court below in an action in equity charging them with infringement of a number of patents (some of which have been adjudicated) owned by the plaintiff corporation for its well known sound reproducing machines and sound records adapted to be used therewith. The infringement charged was not the usual one of a making and selling, for the machines and records which came into the possession of defendants and which they sold and offered for sale are genuine machines and sound records, of plaintiff's manufacture, but for an inhibited sale and violative use of such machines and records, in excess of the license grant; each specific machine and sound record being licensed for use only, by a specific and non-assignable license attached thereto, and also limited under certain conditions and restrictions as to such use; and
48 by the same license grant the licensee obtained a conditional title only to the physical thing embodying the patented invention and to which the patent license appertained.

The defendants, without pleading to the merits by answer, filed their motion, under new equity rule 29, to dismiss the bill, assigning as one of the grounds, in the nature of a demurrer, that the bill did not set forth any cause of action in equity, the defendant contending argumentatively in support of this ground of demurrer, that the license contract was in fact and in law an unlimited and unconditional sale, under which the patented machines and sound records had, in fact and in law, passed out of the monopoly, and hence that defendants had a valid and unlimited title thereto to do as they pleased with them.

LACOMBE, C. J.:

Many questions are presented which need not be now discussed, because there is lacking in the complaint an allegation which seems to us essential to complainant's prayer for relief.

Whether the various documents evidence a lease of each machine for a stated period, with privilege to the lessee at the end of such period to take full title provided he has complied with the conditions of the lease—as to use solely of complainant's needles, records, &c.; or whether it be a conditional sale need not be decided. It seems clear that if the license to use one of these machines on the named conditions has passed from complainant through its distributors or dealers to one of the public, who has paid the full list price for the same—the person who has thus acquired license to use in accordance with the specified conditions may assign such license to any other member of the public who by such assignment will himself obtain the right to use in accordance with the specified conditions.

49 We are not satisfied that there is any obligation on the part of any one member of the public who thus assigns his lease or whatever it may be, to another member of the public to exact any

particular sum from the latter as a consideration for the transfer. We do not see why he may not give the lease to whomever he pleases for no consideration at all, as a free gift provided he has not himself violated any of the conditions and turns the machine over with the license label or other company marks affixed to the machine intact and unaltered, so that his assignee may be fully advised of the conditions under which use of the machine is licensed.

It is manifest from the complaint that defendants' firm is not a "Distributor" nor is it one of the 7000 licensed "dealers" referred to therein. Therefore defendant is one member of the public and if it has paid the \$200 or whatever may be the list price of any particular instrument now in its possession, it could not be enjoined, assuming all complainant's contentions as to the effect of the documents set forth are correct, from parting with possession to another member of the public upon the original conditions as to use. From the brief and argument we infer that injunction relief is sought upon the theory that defendants' firm has obtained possession of some of complainant's machines by paying less than the list price and is proposing to dispose of the same for less than such price. But the complaint contains no allegation which specifically charges that defendant has any machine in its possession for which it did not pay the full list price. In the absence of such allegation, the whole theory of complainant as to the status of a member of the public who has obtained possession of a machine from a distributor or licensed dealer, without paying therefor the full list price, becomes academic.

The decree is affirmed, but with instructions to allow complainant to amend its bill if it be so advised.

50

Stipulation as to Contents of Record.

United States District Court, Southern District of New York.

VICTOR TALKING MACHINE COMPANY, Plaintiff,

v.

JESSE I. STRAUS, PERCY S. STRAUS, and HERBERT N. STRAUS, Individually and as Copartners, Trading as R. H. Macy & Co., Defendants.

It is hereby stipulated and agreed, that the foregoing is a true transcript of the record of the said District Court in the above-entitled matter as agreed on by the parties.

Dated September 22, 1915.

FENTON & BLOUNT,
Attorneys for Plaintiff-Appellant.
WISE & SELIGSBURG,
Attorneys for Defendants-Appellees.

51 UNITED STATES OF AMERICA,
Southern District of New York, ss:

VICTOR TALKING MACHINE COMPANY, Plaintiff,

v.

JESSE I. STRAUS, PERCY S. STRAUS, and HERBERT N. STRAUS, Individually and as Copartners, Trading as R. H. Macy & Co., Defendants.

Clerk's Certificate.

I, Alexander Gilchrist, Jr., Clerk of the District Court of the United States of America for the Southern District of New York, do hereby Certify that the foregoing is a correct transcript of the record of the said District Court in the above-entitled matter as agreed on by the parties.

In Testimony Whereof, I have caused the seal of the said Court to be hereunto affixed, at the City of New York, in the Southern District of New York, this twenty-second day of September, in the year of our Lord one thousand nine hundred and fifteen, and of the Independence of the said United States the one hundred and fortieth.

[Seal of U. S. District Court, S. D. of N. Y.]

ALEXANDER GILCHRIST, JR., *Clerk.*

52 United States Circuit Court of Appeals for the Second Circuit,
October Term, 1915.

No. 140.

VICTOR TALKING MACHINE COMPANY, Complainant-Appellant,

vs.

JESSE I. STRAUSS et al., Individually, etc., Defendants-Appellees.

Argued December 6, 1915. Decided January 11, 1916.

Appeal from the District Court of the United States for the Southern District of New York.

Before Lacombe, Coxe and Rogers, Circuit Judges.

This cause comes here upon appeal from a decree of the District Court, Southern District of New York dismissing the bill. Plaintiff is the manufacturer of certain talking machines and sound records, which are covered by patents which it owns. The suit is brought to restrain defendants, who conduct a department store, from selling or offering for sale, or attempting to part with the title and right of possession of any of plaintiff's patented talking machines and sound records. The theory of the bill is that defendant has some of these in his possession, having obtained such possession without the assent,

direct, or indirect, of complainant, and that defendant- *has* no right to dispose of such machines and records without the consent of complainant and upon the terms which it prescribes.

53 Upon the filing of the original bill motion was made to dismiss it under the new Equity Rule 29, which is the equivalent of a demurrer under the old practice. Judge Augustus N. Hand granted such motion and filed an opinion, 222 F. R., 524. Appeal was taken to this court; we held that even on complainant's own theory, his bill failed to make certain allegations which were essential. The dismissal was therefore affirmed, but with leave to amend; 225 F. R., 535. The bill was then amended by inserting these allegations. Motion was made to dismiss the amended bill and was granted by Judge Hough, who filed no opinion; although he delivered one, orally. From the order of dismissal this appeal is taken.

LACOMBE, C. J.:

This case presents the familiar one of the manufacturer of a patented article undertaking to extend its use and at the same time regulate the terms and conditions under which it shall be used. It seeks to accomplish this in part by a written contract entered into between itself and every so-called licensed dealer to whom it delivers the possession of instruments or records. This need not be recited, as in substance it is the same as a so-called "License Notice" which is attached to a conspicuous part of every machine. This notice varies only in its statement of the amount of royalty, which of course is different for different types of machine. The notice affixed to every instrument of the type known as Victrola XVI reads as follows:

"This machine is manufactured by us under our patents herein-after noted, and is licensed for use only for the term of the patent having the longest term to run, and only with sound records, sound boxes and needles manufactured by us; and our records and sound boxes are licensed only for use with our machines. Only the right to use the said machine is granted to Victor distributors and
54 dealers, for demonstrating purposes, with the right to the distributor to assign a like right to regularly licensed Victor dealers at the dealers' regular discount royalty, with the right to the dealers to convey the license to the public to use the said machine only when a royalty of not less than \$200.00 shall have been paid, and upon consideration that all the conditions of license shall be strictly observed. A similar right is also granted to the distributor to convey to the public the right to use this machine under the same conditions. No license to use this machine is granted to the public until the full royalty shall have been paid. This machine is not licensed for use for public entertainments for profit; for a license for such public use an extra license fee of ten per cent. (10%) of the full royalty shall be payable. Title shall remain in the Victor Talking Machine Company; also the right to repossess the said patented goods upon the breach of any of the conditions upon the re-payment

by the Victor Company to the user of the royalty paid by him; less 5% per annum of the full royalty for each year, or fraction of a year that the user shall have had the use thereof. The Victor Company also reserves the right for itself and its representatives to inspect, adjust and repair this machine at all reasonable times while in the possession of the user, and to instruct the user in its use, but assumes no obligation so to do. All patent rights are reserved by the licensor except those hereby granted to the licensees upon the performance of the conditions noted. Any excess use, or violation of the conditions, will be an infringement of the said patents. The patents under which this machine is manufactured and licensed for use are, among others, as follows: (here follows a long enumeration of the numbers and dates of issues of various patents); and other U. S. Patents under which this machine or parts thereof are manufactured.

No license is granted to use this machine in any altered or changed condition or with any parts not manufactured by this Company. This machine is licensed for use only in the condition, construction and arrangement in which it is put out by us, and any use of this machine, or parts thereof, in any other or altered construction or arrangement, will be construed as a violation of this license. This machine is licensed for use only with needles supplied by the Victor Company; needles will be supplied by the Victor Company, direct to any licensee of any of its patented machines at wholesale price, upon written request.

This license is good only so long as this label remains on this machine; any erasure, alteration or removal of this label, or of any of this Company's labels, or marks attached to this machine, will be construed as a violation of this license. This machine, at the expiration of the patent having the longest term to run, under which it is licensed, shall become the property of the licensee (the machine being then free of the patents, the subject-matter of the license); provided that the licensee shall have faithfully observed the conditions of license, and the Victor Company shall not have previously taken possession of the machine as herein provided.

An acceptance of this machine is an acceptance of these conditions.

All rights revert to the undersigned in the event of violation.

VICTOR TALKING MACHINE COMPANY,

Camden, N. J.

August 1, 1913."

A somewhat similar License Notice is affixed to every sound record or its envelope.

A study of these various documents leads to the conclusion that complainant has undertaken to avoid making such a sale of its machine, as would permanently pass it beyond any further control by itself. We think it has succeeded in so doing; this is not a sale

outright, or a conditional or restricted sale or any sale at all.

Under the authorities the owner of a patent who manufactures machines under such patent can give the right to whom he pleases upon what conditions he may choose to im-

pose. Some of those conditions may involve pecuniary return, such as royalties, rentals for fixed periods, specified lump sum compensation for the whole period. We do not see why he may not give to one person a more restricted right to use than he does to another. The Dick case, 224 U. S., 1 establishes the proposition that a restriction to use only with other products of the patentee is legitimate. Of course the giving to any person of a "right to use" things of this sort is an idle thing, unless the person is also supplied with the physical thing to be used, to hold the same while he is enjoying the use and complying with its terms.

Turning now to the License Notice. What is granted by the patentee is "only the right to use," the particular machine, unaltered, without parts not manufactured by the Victor Company, maker and owner of the patents, and only with records and needles made by the Victor Company, and to use it only so long as the notice unaltered and unaltered remains on the machine. The term for which this right to use is granted is a fixed period "for the term of the patent having the longest term to run"—this term is ascertainable with precision by reference to the notice affixed to the machine which enumerates all the patents.

The character of the use is not the same in all cases.

1. To "Victor distributors" there is given a right to use only for "demonstrating."

As the sole result of demonstration is to induce the public to get the machines it may be assumed that these distributors are paid by the Victor Company.

2. To regularly licensed "Victor dealers" there is also given a right to use for "demonstrating" purposes. Sometimes conveyances of such right to use is made directly by the Victor Company, to the licensed Victor dealer. Sometimes the conveyance is made to the "dealer" by the "demonstrator," who by the terms of the

57 notice is expressly authorized to convey such right to the dealer. These dealers, of course, do not use these machines for their personal enjoyment; their demonstrations are given to induce the public to apply for machines and they are paid by a commission on the amount paid by every person who may be induced by them to take one.

3. To the public, i. e. to individuals who wish to use the machines generally.

Apparently such conveyances are not made directly by the manufacturer; they are made by "Victor Distributors" or by "licensed Victor Dealers," who are expressly empowered to make such conveyances. For each one of such machines the person to whom a right to use the same is granted and a machine delivered, to be by him used, shall pay a lump sum, which varies with the type of machine.

This is called a royalty; in effect it is a payment in advance covering use for the entire term—down to the expiration of the last patent. During such terms the restrictions as to parts, integrity of notice, needles, records, etc., are in force and the manufacturer reserves title in itself. Of course when the patents expire no such restrictions could be maintained and, therefore, when that time comes any

licensee (or user) in whose hands a machine may be and who has faithfully observed the conditions, shall receive full title to the same.

The documents are long and complicated, but it seems to us that this is what they provide for. We do not know why, under the law and the authorities a patentee may not thus dispose temporarily of the use and ultimately of the title of a machine made by him and protected by his patent.

The order is reversed.

H. T. Fenton for the Appellant.

E. E. Wise for the Appellees.

58 At a Stated Term of the United States Circuit Court of Appeals in and for the Second Circuit, held at the Court Rooms, in the Post Office Building, in the City of New York, on the 21st day of January, one thousand nine hundred and sixteen.

Present: Hon. E. Henry Lacombe, Hon. Alfred C. Coxe, Hon. Henry Wade Rogers, Circuit Judges.

VICTOR TALKING MACHINE COMPANY, Complainant-Appellant,
vs.

JESSE I. STRAUS et al., Individually, etc., Defendants-Appellees.

Appeal from the District Court of the United States for the Southern District of New York.

This cause came on to be heard on the transcript of record from the District Court of the United States, for the Southern District of New York, and was argued by counsel.

On consideration whereof, it is now hereby ordered, adjudged and decreed that the decree of said District Court be and it hereby is reversed with costs.

A. C. C.

It is further ordered that a Mandate issue to the said District Court in accordance with this decree.

59 Endorsed: United States Circuit Court of Appeals, Second Circuit. Victor T. M. Co. vs. J. I. Straus et al. Order for Mandate. United States Circuit Court of Appeals, Second Circuit. Filed Feb. 1, 1916. William Parkin, Clerk.

60 UNITED STATES OF AMERICA,
Southern District of New York, ss:

I, William Parkin, Clerk of the United States Circuit Court of Appeals for the Second Circuit, do hereby Certify that the foregoing pages, numbered from 1 to 59 inclusive, contain a true and complete transcript of the record and proceedings had in said Court, in

the case of Victor Talking Machine Company against Jesse I. Straus et al., individually, etc., as the same remain of record and on file in my office.

In Testimony Whereof, I have caused the seal of the said Court to be hereunto affixed, at the City of New York, in the Southern District of New York, in the Second Circuit, this 2d day of February in the year of our Lord One Thousand Nine Hundred and Sixteen and of the Independence of the said United States the One Hundred and fortieth.

[Seal United States Circuit Court of Appeals, Second Circuit.]

WM. PARKIN, *Clerk*.

[United States internal revenue documentary stamp, series of 1914, ten cents, canceled 2/16.]

UNITED STATES OF AMERICA, ss:

[Seal of the Supreme Court of the United States.]

The President of the United States of America to the Honorable the Judges of the United States Circuit Court of Appeals for the Second Circuit, Greeting:

Being informed that there is now pending before you a suit in which Victor Talking Machine Company is appellant, and Jesse I. Straus, Percy S. Straus and Herbert N. Straus, individually and as co-partners, trading as R. H. Macy & Company, are appellees, which suit was removed into the said Circuit Court of Appeals by virtue of an appeal from the District Court of the United States for the Southern District of New York, and we, being willing for certain reasons that the said cause and the record and proceedings therein should be certified by the said Circuit Court of Appeals and removed into the Supreme Court of the United States, do hereby command you that you send without delay to the said Supreme Court, as afore-said, the record and proceedings in said cause, so that the said Supreme Court may act thereon as of right and according to law ought to be done.

Witness the Honorable Edward D. White, Chief Justice of the United States, the eighth day of March, in the year of our Lord one thousand nine hundred and sixteen.

JAMES D. MAHER,

Clerk of the Supreme Court of the United States.

[Endorsed:] File No. 25,123. Supreme Court of the United States. No. 840. October Term, 1915. Jesse Isidor Straus et al., etc., vs. Victor Talking Machine Company. Writ of Certiorari. United States Circuit Court of Appeals, Second Circuit. Filed Mar. 11, 1916. William Parkin, Clerk.

United States Circuit Court of Appeals for the Second Circuit.

VICTOR TALKING MACHINE COMPANY, Plaintiff-Appellant,
against

JESSE I. STRAUS, PERCY S. STRAUS, and HERBERT N. STRAUS, Individually and as Copartners Trading under the Name of R. H. Macy & Co., Defendants-Appellees.

It is hereby stipulated that the certified transcript of record of the above-entitled case on file in the United States Supreme Court, and submitted together with the petition for a writ of certiorari on February 28th, 1916, as Straus vs. Victor Talking Machine Company No. 840, on October 1915 Calendar of the United States Supreme Court, which said petition was granted by said Court, on the 6th day of March, 1916, can be taken as the return by the Clerk of the

Court of Appeals for the Second Circuit to the writ of certiorari issued out of said Court, on the 8th day of March, 1916.

Dated, New York, March 9, 1916.

EDMOND E. WISE,
WISE & SELIGSBURG,
Counsel for Petitioners.
FREDERICK A. BLOUNT,
HECTOR T. FENTON,
Counsel for Respondents.

(Endorsed:) U. S. Circuit Court of Appeals for the Second Circuit. Victor Talking Machine Company, Plaintiff-Appellant, against Jesse I. Straus et al., Defendants-Appellees. Stipulation. Wise & Seligsberg, Attorneys for Petitioners, 15 William Street, New York. United States Circuit Court of Appeals, Second Circuit. Filed Mar. 11, 1916. William Parkin, Clerk.

To the Honorable the Supreme Court of the United States, Greeting:

The record and all proceedings whereof mention is within made having lately been certified and filed in the office of the Clerk of the Supreme Court of the United States, a copy of the stipulation of counsel is hereto annexed and certified as the return to the writ of certiorari issued herein.

Dated, New York, March 11th, 1916.

[Seal United States Circuit Court of Appeals, Second Circuit.]

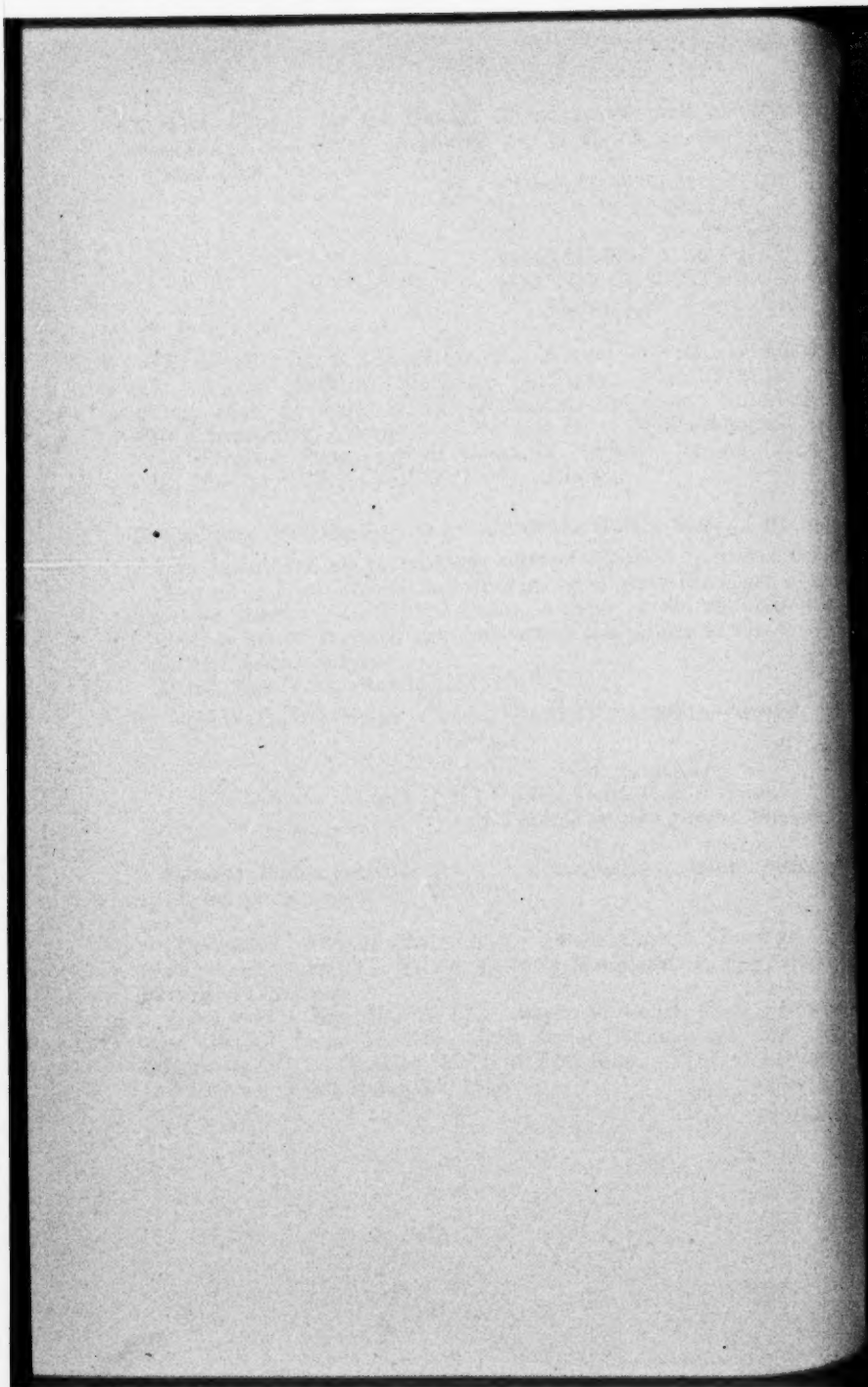
WM. PARKIN,
*Clerk of the United States Circuit Court
of Appeals for the Second Circuit.*

[United States internal revenue documentary stamp, series of 1914, ten cents, canceled. W. P.]

[Endorsed:] 840/25,123. United States Circuit Court of Appeals, Second Circuit. Victor Talking Mach. Co. v. J. I. Straus. Return to Certiorari.

[Endorsed:] File No. 25,123. Supreme Court U. S., October term, 1915. Term No. 840. Jesse Isidor Straus et al., etc., petitioners, vs. Victor Talking Machine Company. Writ of certiorari and return. Filed March 21, 1916.

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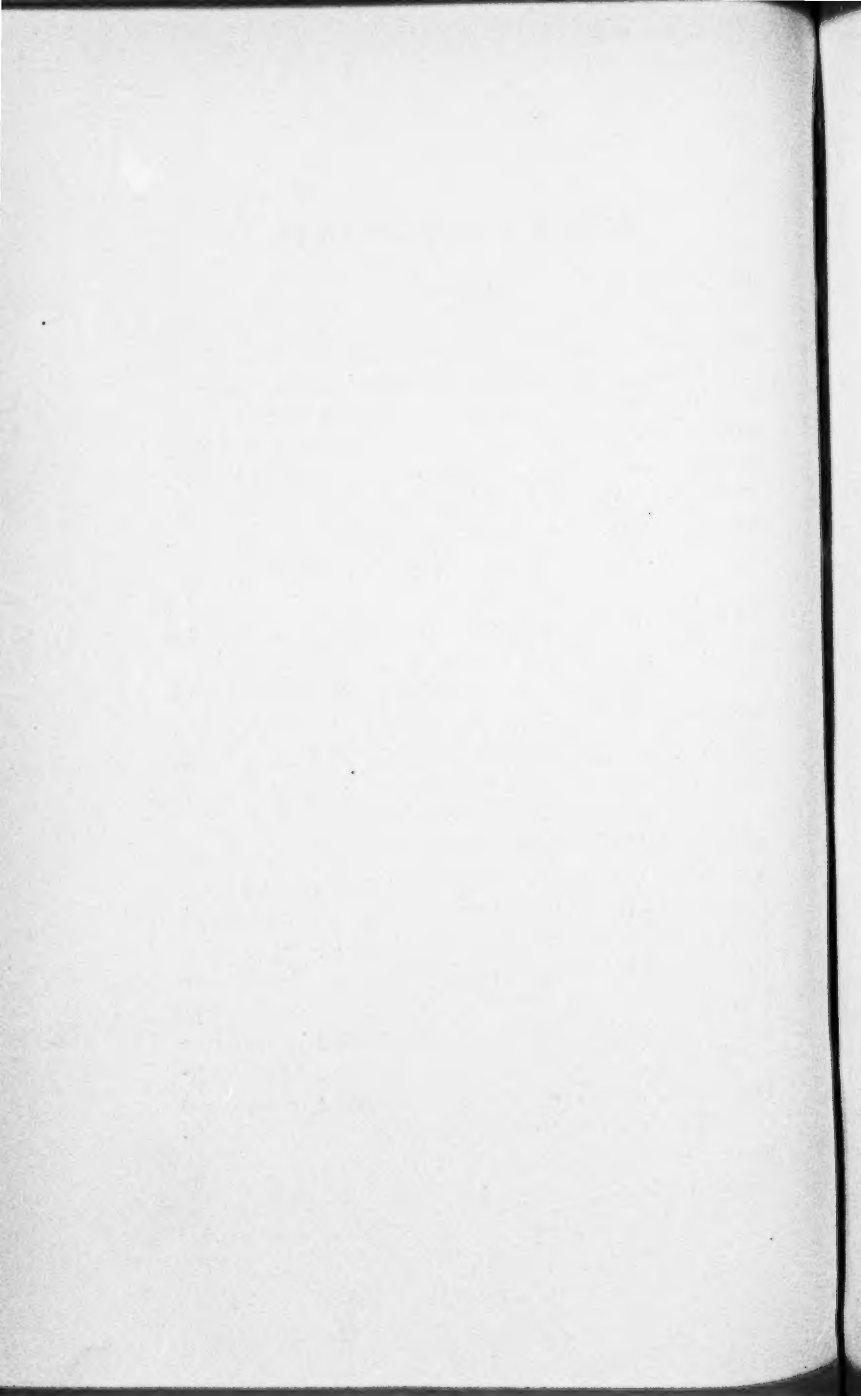


SYNOPSIS.

The license and the agreements with distributors and dealers, under which possession is transferred and use is permitted, are mere cloaks for an actual sale of those instruments and records, coupled with an attempt to control the successive resale price, both to dealers and to the public.

The facts set forth in the bill of complaint show that the patentee has no further interest in the purchase price or royalties to be received from the public or the license dealers; that the ultimate title, with the right of present possession and use, is expressly given, and, under the circumstances, the decision of the Circuit Court of Appeals is directly contrary to the decision of this Court in *Bauer v. O'Donnell*, 229 U. S., 1, and of other circuits, *Ford Motor Co. v. Union Motor Sales Co.*, 225 Fed. Rep., 373; *U. S. v. Kellogg Toasted Corn Flakes Co.*, 222 Fed. Rep., 725.

The system for marketing the complainant's goods constitutes an unreasonable restraint upon alienation, and is contrary to the Federal Anti-Trust laws against monopoly, and to the decisions of this Court condemning systems of a similar nature: *Dr. Miles Medical Co. v. John D. Park Sons*, 220 U. S., 373; *Straus v. American Publishing Association*, 231 U. S., 222; *John D. Park & Son v. Hartman*, 153 Fed. Rep., 80; *Montague v. Lowry*, 153 Fed. Rep., 724; *American Tobacco Co. v. U. S.*, 226 U. S., 49.



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Supreme Court of the United States ¹

OCTOBER TERM, 1915.

IN EQUITY.

JESSE ISIDOR STRAUS, PERCY S.
STRAUS and HERBERT N.
STRAUS, individually and as
co-partners trading under
the name of R. H. MACY &
Co.,

Petitioners,

against

VICTOR TALKING MACHINE COM-
PANY,

Respondent.

2

To

Counsel for Victor Talking Machine Company,
Respondent.

PLEASE TAKE NOTICE that a petition praying for
a writ of certiorari from the Supreme Court of the
United States to the United States Circuit Court
of Appeals for the Second Circuit, a copy of which
is hereto annexed, will be submitted to the Supreme
Court of the United States for the decision of the
Court thereon, on the 28th day of February, 1916. 3

Dated, New York, February 5th, 1916.

EDMOND E. WISE,
Counsel for Petitioners,
15 William Street,
New York City.

WALTER C. NOYES,
EDMOND E. WISE,
of Counsel.

4

SUPREME COURT
OF THE UNITED STATES.

OCTOBER TERM, 1915.

IN EQUITY.

JESSE ISIDOR STRAUS, PERCY S.
STRAUS and HERBERT N.
STRAUS, individually and as
co-partners trading under the
name of R. H. MACY & Co.,
Petitioners,

5

against

VICTOR TALKING MACHINE COM-
PANY,
Respondent.

**PETITION FOR WRIT OF CERTIORARI FROM
THE SUPREME COURT OF THE UNITED
STATES TO THE UNITED STATES CIRCUIT
COURT OF APPEALS FOR THE SECOND
CIRCUIT.**

6

*To the Honorable the Chief Justice and Associate
Justices of the Supreme Court of the United
States:*

Your petitioners, composing the firm of R. H. Macy & Co., respectfully represent:

That the Victor Talking Machine Company, a corporation organized and existing under and by virtue of the laws of the State of New Jersey, is the owner of certain patents on improvements in

sound records and talking machines, and engaged 7
in the business of manufacturing sound reproducing machines and disc records under patents in the City of Camden, N. J., where it has established a large factory and does a large business.

On the 18th day of November, 1914, the Victor Talking Machine Company instituted a suit in equity in the Circuit Court for the Southern District of New York against your petitioners, a partnership conducting, under the name of R. H. Macy & Co., a large retail department store in the City of New York, claiming the right to restrain the defendants from selling, or offering for sale, or attempting to part with the title and right of possession of any of plaintiff's patented talking machines and sound records in violation of the so-called "license" and its terms, conditions and limitations set forth in notices attached to the patented instruments and sound records (Prayer for Relief, paragraph II, Record, p. 22). 8

A motion to dismiss the bill, pursuant to the new Equity Rule 29, was made on December 11, 1914, on the grounds that it appeared on the face thereof: First, that the Court had no jurisdiction of the alleged cause of action; second, that the complaint did not state facts sufficient to constitute a valid cause of action in equity; third, that it appears upon the face of the bill that the system of marketing patented machines set up by the bill of complaint was contrary to the statutes against monopoly. 9

The motion to dismiss, which is the equivalent of a demurrer under the old practice, was argued before Judge AUGUSTUS N. HAND, who granted the motion and filed his opinion, 222 Fed. Rep., 524, a copy of which is hereto annexed and which is also printed in the record at page 41.

- 10 In his opinion Judge HAND held that under the decision of this Court in *Bauer v. O'Donnell*, 229 U. S., 1, the Patent Law did not, under the exclusive right secured by the statute to "vend" a patented article, grant the right "to dictate the price at which subsequent sales of the article may be made," when a sale has once taken place, and that the most striking difference between that case and the case at bar lay in the fact that in this case compliance with the license in respect to price or royalty is made a condition precedent to the passing of a title, while in *Bauer v. O'Donnell* such compliance was made necessary to preventing the re-vesting of title by a condition subsequent; that that difference was only formal. He further held that
- 11 the case of *Henry v. Dick*, 224 U. S., 1, did not apply.

An appeal was taken to the Circuit Court of Appeals for the Second Circuit, which affirmed the dismissal, Judge LACOMBE writing the opinion, 225 Fed. Rep., 535, a copy of which is hereto annexed and which is given in full in the record at page 47.

- In that opinion the Court held that the payment of the full list price enables the purchaser to assign or give away the instrument without any restrictions except as to the limited use and that in the absence of an allegation which specifically charges that defendant had any machine in its possession for which it did not pay the full list price, the
- 12 whole theory of the complaint as to the status of a member of the public who has obtained possession of a machine from a "distributor" or "licensed dealer," without paying therefor the full list price, becomes academic. The affirmance was coupled with permission to amend the bill if complainant were so advised.

On August 23, 1915, the plaintiff did amend its bill, and substantially alleged that the defendants, being members of the general unlicensed public, had acquired possession of some records and machines at less than the *list price* stated in the label affixed to each of the machines and were preparing and threatening to dispose of them at less than the list price stated in the label. 13

A motion to dismiss the amended bill was repeated on the same grounds as on the motion to the original bill. That motion came on for argument before Judge HOUGH, who again dismissed the bill, but filed no opinion, although he delivered one orally. From the order of dismissal an appeal was taken to the Circuit Court of Appeals, which, on the 10th day of January, 1916, reversed that order in an opinion written by Circuit Court Judge LACOMBE and concurred in by Circuit Court Judges COXE and ROGERS. A copy of that opinion is hereto annexed. 14

The petitioners respectfully submit to this Court that the Circuit Court of Appeals erroneously held that the facts in this case, as set forth in the bill of complaint, brought it under the theory or authority of the case of *Henry v. Dick*, 224 U. S., 1, and erroneously failed or refused to apply the principle established by this Court in *Bauer v. O'Donnell*, 229 U. S., 1, in reliance upon which both Judge HAND, on the original bill, and Judge HOUGH, in the case of the amended bill, held that WHEN A PATENTEE HAS PERMANENTLY PARTED WITH THE ENTIRE RIGHT TO USE AND HAS NO LONGER ANY INTEREST IN THE ROYALTIES FROM SUBSEQUENT SALES, AS DISCLOSED IN BOTH THE ORIGINAL AND AMENDED COMPLAINT, HE CAN NO LONGER CONTROL THE SALE EITHER OF THE PHYSICAL INSTRUMENT OR 15

16 THE RIGHT TO ITS LIMITED USE IN SUBSEQUENT TRANSFERS.

Your petitioners respectfully submit that the Circuit Court of Appeals erroneously held that the license agreements did not constitute a sale outright, or a "conditional" or restricted sale, or any sale at all, and also erroneously held that, coupled with the right to use, the patentee had the right to control the assignment, transfer or sale of that "right to use" by virtue of the Patent Law, and that in the conditions or limitations contained in the license or other documents, the complainant (respondent here) had brought itself within the principles of the case of *Henry v. Dick*, 224 U. S., 1.

17 The petitioners further respectfully submit that the Circuit Court of Appeals erroneously refused to hold that under the Anti-Monopoly Law, more especially the so-called Sherman Act and the Clayton Bill, the complaint disclosed a combination between the plaintiff and 7,000 "licensed distributors" and "dealers" to restrain trade and establish a monopoly.

The Facts as Disclosed by the Complaint.

18 The complaint alleges that the complainant is the owner of certain patents on improvements in sound records and talking machines and has since 1901 manufactured sound reproducing machines and disc records under patents, in the City of Camden, N. J., where it has established a large factory and does a large business. That for the purpose of "marketing" its product, it has established throughout the United States over 7,000 "specially licensed dealers" through whom it markets and delivers its machines and sound records to the "ultimate pos-

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 sessor" under what is described in respondent's brief as a "conditional sale" of each specimen, coupled with a limited license to use it. These various so-called rights and titles are described by recitals in written contracts made by the plaintiff with each dealer, and in substance repeated on a label securely attached to each machine, and stamped upon an envelope containing each record, by means of which the "ultimate possessor" receives actual notice of the character, limitations and restrictions upon the title and use of the machine.

20
 In paragraph 19 a "license notice" attached to each instrument is set forth in full. It states that the machine is licensed for use only for the term of the patent having the longest term to run; it is to be used only for sound records, sound boxes and needles manufactured by plaintiff. Victor "Distributors" (the bill contains no precise definition of this term) are granted a license to *use* the machine for *demonstrating* purposes only, with the right to the "Distributor" to assign a like right to regularly "licensed Victor Dealers" (the complaint contains no precise definition of this term), at the dealer's "regular discount royalty," and with the right to the dealer to convey the license to the public to use the machine only when a royalty of not less than \$200 shall have been paid. The "Distributor" has a like right to convey to the public the right to use the machine under the same conditions. 21
No license to use the machine is granted to the public until the full royalty shall have been paid. The title is to remain in the Victor Talking Machine Company, and the right of repossession on breach of any of the conditions upon repayment of the royalty paid by the user, less 5 per cent. per annum of the full royalty for each year that it shall have been used. Any excess use, or violation of the

22 condition, is claimed to be an infringement of the patents. The machine is licensed for use only with needles supplied by the Victor Company, and needles will be supplied direct to any licensee of any of its patent machines at wholesale prices. License is declared to be good only so long as the label remains on the machine; any erasure, alteration or removal of the label, or of any of the company's labels or marks, will be construed as a violation of the license. The machine at the expiration of the patent having the longest term to run under which it is licensed *shall become the property of the licensee*, provided he shall have faithfully performed the conditions of the license.

23 The records had an almost identical "license notice" printed on the envelopes containing them (par. 20).

About the 1st day of August, 1913, plaintiff adopted and since then has employed a written license contract with its "licensed dealers," whereby each such licensed dealer was authorized on receipt of a patented machine or sound record either from the plaintiff or a "paramount distributing dealer" *to dispose of the same, with license to use it, on certain terms and conditions.*

At pages 18, 19 and 20 that agreement is in *part only set forth*, periods marking the places where *portions are omitted.*

24 That license contract apparently creates three different classes of licensees with different powers; *first*, the "distributor," who is permitted to *use* the patented machines only for demonstrating purposes, and in "distributing" them, to assign the same right to any regularly "licensed dealer."

Second, the "licensed dealer," who can only *use* the machine for demonstrating purposes, but has

the additional right to assign the right to use the machines to the public upon the payment of the "full list royalty or license fee, as per the current schedule as issued by the Victor Company, a copy of which accompanies the agreement" (but which is omitted from the record). 25

Third, the public is licensed only to *use* the machines subject to the condition upon the label, but *has no right to assign or transfer that use under any circumstances until the expiration of the youngest patent*, when, without any further payment of any kind, the absolute ownership in the machine and the record vests in the licensee.

The prayer for judgment, in addition to a general prayer for injunctive relief against violation of plaintiff's letters patent and for an accounting of the profits, prays for a decree (p. 22): 26

"restraining said defendants from selling, or offering for sale, or attempting to part with the title and right of possession of any of plaintiff's said patented machines and sound records which said defendants obtained from any of plaintiff's 'licensed distributing dealers' in violaton of the license and its terms, conditions and limitations contained and set forth in the label notices attached to each of said patented machines and sound records, respectively."

The Circuit Court of Appeals held that there was no sale, conditional or otherwise, despite the fact that respondent here (appellant below) in its brief and in its argument insisted that it was a conditional sale with a qualified right to use. In describing the contract it said in its brief, page 4, as follows: 27

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"This is the contract of conditional sale and license under which alone the defendant or any other members of the public may acquire a right of possession and use, under the patents, and defines the conditions and limitations thereof. It is thus made a direct contract between the plaintiff and the ultimate licensee. *This specific contract of conditional sale and license*, attached to and governing each specimen of the patented inventions, is printed at large in paragraph 13 of the bill (Record, pp. 13 to 17) and its nature and character as well as the result and effect thereof, are concisely averred in paragraph 16 thereof." (Italics are ours.)

29

And in stating the position in its argument for the reversal of the order dismissing the complaint, the brief, at page 24, contains the following statement of the sub-division of the argument:

"It cannot be successfully disputed that a manufacturing patentee, in marketing his patented machine may lawfully (italics are ours):

30

(1) *Make a conditional sale or lease of each specimen, coupled with a limited license to use it*, and may by such a contract of sale and license impose any license conditions either precedent or subsequent that are reasonable and not definitely illegal; and that if evidenced by an attached label contract of such *conditional sale and license*, specific to each specimen, it will be valid as limiting the title and right of anyone who, with such notice, may acquire possession of it; and

(2) That he may make the patent license, running with the machine, non-assignable."

The Circuit Court of Appeals in its first opinion (see Record, p. 47) in substance decided that

that portion of the license which conveyed a non-transferable use of the instrument to the public, when the full list price had been paid, was inoperative to prevent the transfer of that use by the public. 31

Judge LACOMBE says (*italics are ours*) :

"It seems clear that if the license to use one of these machines on the named conditions has passed from complainant through its distributors or dealers to one of the public, who has paid the full list price for the same—the person who has thus acquired license to use in accordance with the specified conditions may assign such license to any other member of the public who by such assignment will himself obtain the right to use in accordance with the specified conditions. 32

* * * *We do not see why he may not give the lease to whomever he pleases for no consideration at all, as a free gift, provided he has not himself violated any of the conditions and turns the machine over with the license label or other company marks affixed to the machine intact and unaltered, so that his assignee may be fully advised of the conditions under which use of the machine is licensed."*

By a parity of reasoning a similar result would seem to follow when a "licensed distributor" or "licensed dealer" has paid to the complainant the full royalty that is exacted from him by the patentee. He ought not to be limited in his sales or transfer only to those who are "licensed to deal" in the instrument, and, like any member of the public who has paid the price exacted, he can transfer his "license to use" to whomever he selects for whatever price he sees fit, and if he does so in violation of his agreement, he is reachable, not under the Patent Law as for an infringement of the patent, but under the Contract Law that is applicable to all arti- 33

34 cles of merchandise, whether patented or not. If there be no sale, the public, on paying the full list price, does not own the instrument. If it purchases only the "right to use," it can transfer that right in whatsoever way it pleases in the face of the license prohibition. There is no reason why the intermediate distributor, who has paid all that is demanded of him, cannot likewise transfer that use without being guilty of infringement of the patent. The prohibition against either transfer is contained in the same license. If one is ineffective, the other must likewise fail.

It is difficult to reconcile the underlying theories of the two decisions of the Circuit Court of Appeals in this case.

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In other circuits the Court has arrived at a different conclusion than in this case under similar conditions, where licenses have been granted with reservations of title, as in

Ford Motor Co. v. Union Motor Sales Co.,
Southern District of Ohio, 225 Fed.
Rep., 373.

36

Judge HOLLISTER, in that case, in passing upon documents which in the main closely resemble the "license" agreement and "distributor's" agreement in the case at bar, pointed out the distinction between such cases and the case of *Henry v. Dick*, *supra*, and concluded that where the purpose of the complainant's contracts with its dealers, each of whom has paid it all it asks, was to fix resale prices, the Patent Law does not confer power upon the patentee to prevent competition among them, and that such contracts are invalid and cannot be enforced.

Judge HOLLISTER distinguishes between the sale by a patentee and a license to sell.

So also in *United States v. Kellogg Toasted Corn Flakes Co.*, 222 Fed. Rep., 725, the Circuit Court of Appeals in the Eastern District of Michigan, in passing upon a "conditional sale" of the defendant's products, held that it clearly comes under the principle of *Bauer v. O'Donnell*, and, in addition, that it is a portion of a system which is contrary and obnoxious to the Anti-Trust Act. 37

Petitioners further state that the transfer of the right of possession of an article manufactured under a patent, with an agreement that its ultimate title belongs to the licensee, and also the intermediate right to use such patented article (the complete "royalty" to which the patentee is entitled having been paid), is a mere pretense to cloak an actual sale (whether conditional or not is immaterial) under the guise of a license to use; that such pretense was deliberately devised for the purpose of evading and circumventing the decision of this Court in the case of *Bauer v. O'Donnell*, and, if sustained, will completely emasculate the effect of that decision, as by merely avoiding the term "sale" or similar words, any patentee will be able to control the price and resale price of any article manufactured under a patent, although he himself has received his full royalty and has no interest in any subsequent resale. 38

Your petitioners submit that the same reasoning, which denies to a patentee by virtue of the Patent Law the right to control the subsequent resale price of an article which passes the title, is applicable with equal force to the subsequent resale of the license to use; in fact, there are numerous decisions in this Court that a failure to observe the terms of a license in so far as the payment of the royalties, or a transfer of the license itself, is concerned, is not an infringement of the patent. 39

- 40 (See opinion of Judge LURTON in *Henry v. Dick*, 224 U. S., 1, where he analyzes the decision of this Court in *Excelsior Wooden Pipe Co. v. Pacific Bridge Co.*, 185 U. S., 282, and cases cited.)

Your petitioners further submit that the system of marketing its goods adopted by the respondent is almost identical with the systems condemned in the cases of *Dr. Miles Medical Co. v. John D. Parke & Son*, 220 U. S., 373, and *Straus v. American Publishers Association*, 231 U. S., 222, and that the Circuit Court of Appeals failed or refused to follow them.

- 41 Your petitioners further submit that the determination of the Circuit Court of Appeals that the system of marketing its goods adopted by the complainant did not create a sale, conditional or otherwise, will, if sustained, lead to the most far reaching and serious results.

It will permit all patentees to disguise sales under the cloak of a "license" and thus bring all their goods under the Patent Law to the exclusion questions as to the supply, price and distribution of of the state courts.

- 42 It will work a substantial injustice to creditors of dealers in patented articles, for under the guise of a non-assignable or non-transferable "license to use," neither the receiver in bankruptcy nor the sheriff under an execution could dispose of a large stock of patented articles, except at the full list retail price, without infringing the patent.

Combinations in restraint of trade and far in excess of any monopoly contemplated by the Patent Law could be entered into with impunity and enforced under the Patent Law, though in violation of local as well as Federal statutes against restraint of trade.

The free alienation of personal property for periods repugnant to various local statutes against perpetuities could be restrained. 43

The local statutes which provide that where chattels are transferred with reservations and conditions as to title possession of personal property conclusively implies ownership thereof and title thereto, unless an instrument declaring the real owner be filed and from time to time refiled, would be annulled as to patented articles.

Your petitioners respectfully submit that they believe the decree of the Circuit Court of Appeals in the case at bar to be erroneous, because it is in direct conflict with the decision of this Court in the case of *Bauer v. O'Donnell*, 229 U. S., 1, is in further conflict with the decisions in other circuits, as heretofore pointed out, and tends to completely confuse the law governing the rights of patentees in the control of their products and of the price at which subsequent transfers of the same can be made, or the price at which such articles are to be offered to the public; that the trade in patented articles in the United States is of enormous dimensions; that it is of the utmost importance to the public at large, as well as to patentees and dealers in general, that that law be definitely and clearly defined and settled, and that it be not differently applied or interpreted in the different circuits of the United States, and that, in the interests of uniformity, as well as for the purpose of finally and definitely settling and determining these questions of great public interest, this Court should order this case certified up to it for a decision, for the purpose of settling the conflict that now exists between the various Circuit Courts of Appeal and of establishing the law upon one of the most important branches of commercial practice. 44 45

46 WHEREFORE, your petitioners respectfully pray that a writ of certiorari may be issued out of and under the seal of this Court, directed to the United States Circuit Court of Appeals for the Second Circuit, commanding the said Court to certify and send to this Court, on the day certain to be therein designated, a full and complete transcript of the record of all proceedings of said Circuit Court of Appeals in the said case therein entitled, "Victor Talking Machine Company, plaintiff-appellant, against Jesse I. Straus, Percy S. Straus and Herbert N. Straus, trading as R. H. Macy & Co., defendants-appellees," and which was in equity No. 140 on the October Term, 1915, of said Court, to the end that the said case may be certified and determined by this Court as provided in Section 240 of the Acts of Congress entitled, "An Act to Codify, Revise and Amend the Laws Relating to the Judiciary," approved March 3, 1911.

47

And your petitioners further pray that the said judgment of said Circuit Court of Appeals in the said case, and every part thereof, may be reversed by this Court, and that your petitioners may have such other and further relief, or remedy, in the premises as to this Court may seem appropriate and in conformity with the Judiciary Act.

And your petitioners will ever pray.

Dated, New York, February 5, 1916.

48

R. H. MACY & CO.,
by EDMOND E. WISE,
Attorney for Petitioners.

EDMOND E. WISE,
Solicitor and Counsel for Petitioners.

STATE OF NEW YORK, }
COUNTY OF NEW YORK, } ss.:

49

EDMOND E. WISE, being duly sworn, deposes and says: That he is counsel for the petitioners herein; that he has read the foregoing petition and knows the contents thereof, and that the same is true of his own knowledge except as to the matters therein stated to be alleged upon information and belief, and as to those matters he believes it to be true.

EDMOND E. WISE.

Sworn to before me this
5th day of February, 1916.

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THERESA A. SOPHRIN,
Notary Public,
Kings County.
Certificate filed in New York County.

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OPINION OF JUDGE A. N. HAND.**UNITED STATES DISTRICT COURT,****SOUTHERN DISTRICT OF NEW YORK.**

**VICTOR TALKING MACHINE COM-
PANY,
Complainant,**

vs.

**JESSE ISIDOR STRAUS, PERCY S.
STRAUS and HERBERT N.
STRAUS, individually and as
co-partners trading as R. H.
MACY & COMPANY,
Defendants.**

**E 12-54.
Opinion (filed
March 23rd,
1915).**

53

**FENTON & BLOUNT, Solicitors for Complainant
(FREDERICK A. BLOUNT and HECTOR T. FEN-
TON, Counsel).**

**WISE & SELIGSBURG, Solicitors for Defendants (ED-
MOND E. WISE, Counsel).**

AUGUSTUS N. HAND, District Judge:

**54 This is a motion to dismiss the bill of complaint
brought under Rule 29 of the new Equity Rules.
The suit is for infringement of patents.**

The complainant alleges that it is the owner of various patents covering the Victor Talking Machines and Sound Records, that it has manufactured under these patents, has appointed licensed dealers with the right to convey the license to the public to use its machines and sound records only

when a royalty has been paid of not less than \$200 for the use of a machine and of not less than that noted on the record for the use of a sound record. Every machine and sound record has accompanying it a notice of license to the foregoing effect and also to the effect that the patented article is to be used only with the machines, sound boxes, sound records and needles manufactured by the complainant. The license also provides that it is good only when the label containing the notice of license is attached to the machine. It likewise provides that the title to the patented goods remains in the Victor Talking Machine Company for the term of the patent having the longest term to run, and that upon the expiration of such patent the goods shall become the property of the licensee if he shall have observed the conditions of the license. The license further provides that upon violation of any of the terms of the license, the Victor Talking Machine Company may upon repayment of the amount of the royalty less 5 per cent. per annum for the use retake the patented goods from the user. The complaint does not charge the defendants with having used the patented goods without labels or with needles other than those manufactured by the complainant, but charges as the sole act of infringement that the defendants though lawfully in possession of the patented articles have exceeded the limited use granted by the license in that they have sold the articles outright, in some cases for less than they have paid for the same to the licensed dealers, and are threatening to continue this course. The complainant alleges that by its system of marketing its patented machines and sound records it is enabled to obtain the benefit of its patents "at a minimum of cost to the licensee."

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The real purpose of the license is obviously to maintain the market for the talking machines and sound records at the prescribed royalty, and the essential point involved is whether such a limitation of the use in the mode I have described is within the rights of the owner of the patents.

I may say at the outset that if the patentee has such a right under the patent law, there can be no doubt that this Court, and not the State Court, is the proper tribunal to adjudicate the issue between the parties. I also think that no provision of the Sherman Act or Clayton Act affects the matters at issue. The infringement charged is for selling when
59 defendants are alleged to possess nothing more than a non-assignable right to use. The whole dispute is as to the extent of the monopoly granted by the patent. There is no combination shown in restraint of trade or to fix prices, nor any contract substantially lessening competition. The only question is whether a patentee who has once received his royalty covering the use of the patented article during the entire life of the patent can by his license prevent the transfer of the use by his licensee in a case where upon the expiration of the patent there is a sale of the machine itself to the ultimate possessor conditioned upon the observance of the terms of the license. If the patentee has such a right I think an
60 attempt to sell the machine in derogation of the license for a limited use is an infringement, and a remedy for infringement lies in the United States Court, which has general jurisdiction over patent causes. As was said in *Henry v. Dick Co.*, 224 U. S., 1, the complainant might have waived the tort and sued upon the contract of license itself, then the remedy would be at law in the State Court. But he

has chosen naturally the more adequate remedy. This being so, the issue is reduced to whether the right declared upon is one given by the patent law.

In the case of *Henry v. Dick Co.*, the license read as follows:

"This machine is sold by the A. B. Dick Co. with the license restriction that it may be used only with the stencil paper, ink and other supplies made by A. B. Dick Company, Chicago, U. S. A."

In that case, Sidney Henry sold to Miss Skou a can of ink suitable for use upon the patented mimeograph with knowledge of the above license agreement and with the expectation that it would be used in connection with said mimeograph. The Court held by a divided vote of four to three, the Chief Justice and Justices HUGHES and LAMAR dissenting, that the act of Henry constituted an infringement of the patent.

62

In the case of *Bauer v. O'Donnell*, 229 U. S., 1, the notice of license was as follows:

"This size package of Sanatogen is licensed by us for sale and use at a price not less than One Dollar. Any sale in violation of this condition or use when so sold, will constitute an infringement of our patent—under which Sanatogen is manufactured,—A purchase is an acceptance of this condition. All rights revert to the undersigned in the event of violation."

63

The Supreme Court decided this case by a divided vote. Mr. Justice DAY, who did not sit in the case

of *Henry v. Dick*, wrote the opinion, and the Chief Justice, Justice HUGHES and Justice LAMAR (who dissented in the *Dick* case) and Justice PITNEY, constituted the majority, and Justices MCKENNA, HOLMES, LURTON and VAN DEVANTER, who were the majority in the *Dick* case, constituted the minority. The patent law grants:

"To the patentee his heir or assigns for the term of seventeen years the exclusive right to make use and vend the invention." R. S. Sec. 4884.

65

The majority of the Court in *Bauer v. O'Donnell*, *supra*, held that the patent law did not under the exclusive right secured by the statute to "vend" a patented article grant the right "to dictate the price at which subsequent sales of the article may be made" when a sale has once taken place. It is to be noticed that the license agreement in that case attempted to limit the use to cases in which a price of \$1 should be paid upon all sales and contained a clause revesting title in the patentee wherever the license agreement should be violated in this respect. The most striking difference between that case and the case at bar lies in the fact that here compliance with the license in respect to price or royalty is made a condition precedent to the passing of title, while in *Bauer v. O'Donnell* such compliance was

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made necessary to preventing the revesting of title by a condition subsequent. This difference seems to me only formal. In fact, I can see no distinction between permanently parting with the use for a stipulated sum and parting with the title to a patented article so far as the right to restrict the price to the consumer is concerned. But, if there is such a difference, it cannot, I think, be determined by

whether the condition of the passing of title is precedent or subsequent if in each event the title is designed ultimately to be in the licensee provided he has paid the designated price. It will be said that a further difference between this case and *Bauer v. O'Donnell* lies in the fact that there the use granted was confessedly assignable because the license agreement contemplated successive sales while here the licensee was given no right, express or implied, to transfer the use. The point, however, upon which that case turned was that the patentee had no further interest in the use, and unless the licensee violated some provision of the license he had parted with his interest in it because he had received the entire royalty. Such is the exact situation here.

68

The complainant, however, most urgently argues that the case of *Henry v. Dick* is not overruled and should determine my action in its favor.

In *Bauer v. O'Donnell* that case is distinguished by Mr. Justice DAY upon the ground that there the use of the machine granted was limited in that it was to be with other articles than the patented apparatus. To quote his exact language:

"There is no showing of a qualified sale for less than value for limited use with other articles only as was shown in the *Dick* case. There was no transfer of a limited right to use this invention, and to call the sale a license to use is a mere play upon words."

69

In other words the *Dick* case must be restricted to the facts there presented and cannot, in view of the later case of *Bauer v. O'Donnell*, be extended to cover a case like the present when the patentee

has permanently parted with the entire right to use and has no longer any interest in the royalties from subsequent sales. If the defendants should use the machines without complainant's needles, the rule laid down in the *Dick* case would apply, but no such infringement is alleged. In other words, the interest of the licensor in the use is exhausted except as to its right to have the machine used with the unpatented needles of its manufacture.

As Mr. Justice DAY further said in *Bauer v. O'Donnell*:

71

"The jobber from whom the appellee purchased had previously bought, at a price which must be deemed to have been satisfactory, the packages of Sanatogen afterwards sold to the appellee. The patentee had no interest in the proceeds of the subsequent sales, no right to any royalty thereon or to participation in the profits thereof. The packages were sold with as full and complete title as any article could have when sold in the open market, excepting only the attempt to limit the sale or use when sold for not less than one dollar. In other words, the title transferred was full and complete with an attempt to reserve the right to fix the price at which subsequent sales could be made."

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In the case of *Bauer v. O'Donnell*, I think the Court felt the same difficulty in supporting the attempted restriction that Courts have often found in giving effect to conditions that are repugnant to the general terms of a conveyance or devise. If this were a case of first impression, I might feel that no sufficient reason exists for holding that a patentee could not attach such limitations to the

future use of his patented goods as he might choose, irrespective of whether he had received a full royalty or not. I think, however, the case of *Bauer v. O'Donnell* holds to the contrary.

I can, after careful consideration, see no difference, except a purely formal one, between that case and the one under consideration, and for this reason, I am of the opinion that the bill must be dismissed.

A. N. H.,
D. J.

76 **FIRST OPINION OF CIRCUIT COURT OF
APPEALS.**

**UNITED STATES
CIRCUIT COURT OF APPEALS**

FOR THE SECOND CIRCUIT.

**VICTOR TALKING MACHINE COM-
PANY,
Plaintiff-Appellant,**

against

77 **JESSE I. STRAUS, PERCY S.
STRAUS and HERBERT N.
STRAUS, individually and as
co-partners, trading under
the name of R. H. Macy &
Company,
Defendants-Appellees.**

Before :
LACOMBE,
COXE and
ROGERS,
Circuit
Judges.

**FREDERICK A. BLOUNT, HECTOR T. FENTON, Coun-
sel for Appellant.**

**WISE & SELIGSBURG, Solicitors for Defendants-
Appellees; EDMOND E. WISE, of Counsel.**

78 This cause comes here on an appeal from a de-
cree entered by the District Court of the United
States for the Southern District of New York dis-
missing the plaintiff's bill.

The Victor Talking Machine Company is a cor-
poration organized and existing under the laws of
the State of New York.

The defendants are each and all of them citi-
zens of the State of New York, and constitute a

co-partnership under the trade name of R. H. Macy & Company, and carry on business in the City of New York.

The Victor Talking Machine Company claims to be the sole owner of letters patent of the United States No. 947,227, issued to it January 25, 1910, as assignee of John C. English, and of certain other patents relating to talking machines and records and which are not here specified.

The defendants were impleaded in the court below in an action in equity charging them with infringement of a number of patents (some of which have been adjudicated) owned by the plaintiff corporation for its well known sound reproducing machines and sound records adapted to be used therewith. The infringement charged was not the usual one of making and selling, for the machines and records which came into the possession of defendants and which they sold and offered for sale are genuine machines and sound records, of plaintiff's manufacture, but for an inhibited sale and violative use of such machines and records, in excess of the license grant; each specific machine and sound record being licensed for use only, by a specific and non-assignable license attached thereto, and also limited under certain conditions and restrictions as to such use; and by the same license grant the licensee obtained a conditional title only to the physical thing embodying the patented invention and to which the patent license appertained.

The defendants, without pleading to the merits by answer, filed their motion, under new equity rule 29, to dismiss the bill, assigning as one of the grounds, in the nature of a demurrer, that the bill did not set forth any cause of action in equity, the

defendant contending argumentatively in support of this ground of demurrer that the license contract was in fact and in law an unlimited and unconditional sale, under which the patented machines and sound records had, in fact and in law, passed out of the monopoly, and hence that defendants had a valid and unlimited title thereto to do as they pleased with them.

LACOMBE, *C. J.*

Many questions are presented which need not be now discussed, because there is lacking in the complaint an allegation which seems to us essential to complainant's prayer for relief.

Whether the various documents evidence a lease of each machine for a stated period, with privilege to the lessee at the end of such period to take full title provided he has complied with the conditions of the lease—as to use solely of complainant's needles, records, &c.; or whether it be a conditional sale need not be decided. It seems clear that if the license to use one of these machines on the named conditions has passed from complainant through its distributors or dealers to one of the public, who has paid the full list price for the same—the person who has thus acquired license to use in accordance with the specified conditions may assign such license to any other member of the public, who by such assignment will himself obtain the right to use in accordance with the specified conditions. We are not satisfied that there is any obligation on the part of any one member of the public who thus assigns his lease, or whatever it may be, to another member of the public to exact any particular sum from the latter as a considera-

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tion for the transfer. We do not see why he may not give the lease to whomever he pleases for no consideration at all, as a free gift, provided he has not himself violated any of the conditions and turns the machine over with the license label or other company marks affixed to the machine intact and unaltered, so that his assignee may be fully advised of the conditions under which use of the machine is licensed.

It is manifest from the complaint that defendants' firm is not a "Distributor," nor is it one of the 7,000 licensed "dealers" referred to therein. Therefore defendant is one member of the public and if it has paid the \$200 or whatever may be the list price of any particular instrument now in its possession, it could not be enjoined, assuming all complainant's contentions as to the effect of the documents set forth are correct, from parting with possession to another member of the public upon the original conditions as to use. From the brief and argument we infer that injunctive relief is sought upon the theory that defendants' firm has obtained possession of some of complainant's machines by paying less than the list price and is proposing to dispose of the same for less than such price. But the complaint contains no allegation which specifically charges that defendant has any machine in its possession for which it did not pay the full list price. In the absence of such allegation, the whole theory of complainant as to the status of a member of the public who has obtained possession of a machine from a distributor or licensed dealer, without paying therefor the full list price, becomes academic.

The decree is affirmed, but with instructions to allow complainant to amend its bill if it be so advised.

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88 **SECOND OPINION OF CIRCUIT COURT OF
APPEALS.**

UNITED STATES
CIRCUIT COURT OF APPEALS,
SECOND CIRCUIT.

Before:

LACOMBE, COXE and ROGERS,
Circuit Judges.

89 **VICTOR TALKING MACHINE COM-
PANY,**
Complainant-Appellant,

against

JESSE I. STRAUS & OTHERS,
Defendants-Appellees.

90 This cause comes here upon appeal from a decree of the District Court, Southern District of New York, dismissing the bill. Plaintiff is the manufacturer of certain talking machines and sound records, which are covered by patents which it owns. The suit is brought to restrain defendants, who conduct a department store, from selling or offering for sale, or attempting to part with the title and right of possession of any of plaintiff's patented talking machines and sound records. The theory of the bill is that defendant has some of these in its possession, having obtained such possession without the assent direct or indirect of complainant, and that defendant has no right to dispose of such machines and records without the consent of complainant and upon the terms which it prescribes.

Upon the filing of the original bill motion was made to dismiss it under the new Equity Rule 29, which is the equivalent of a demurrer under the old practice. Judge AUGUSTUS N. HAND granted such motion and filed an opinion, 222 F. R., 524. Appeal was taken to this Court; we held that, even on complainant's own theory, his bill failed to make certain allegations which were essential. The dismissal was therefore affirmed, but with leave to amend; 225 F. R., 535. The bill was then amended by inserting these allegations. Motion was made to dismiss the amended bill and was granted by Judge HOUGH, who filed no opinion; although he delivered one, orally. From the order of dismissal this appeal is taken.

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LACOMBE, *C. J.*:

This case presents the familiar one of the manufacturer of a patented article undertaking to extend its use and at the same time regulate the terms and conditions under which it shall be used. It seeks to accomplish this in part by a written contract entered into between itself and every so-called licensed dealer to whom it delivers the possession of instruments or records. This need not be recited, as in substance it is the same as a so-called "License Notice" which is attached to a conspicuous part of every machine. This notice varies only in its statement of the amount of royalty, which, of course, is different for different types of machine. The notice affixed to every instrument of the type known as Victrola XVI reads as follows:

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"This machine is manufactured by us under our patents hereinafter noted, and is licensed for use

only, for the term of the patent having the longest term to run, and only with sound records, sound boxes and needles manufactured by us; and our records and sound boxes are licensed only for use with our machines. Only the right to use the said machines is granted to Victor distributors and dealers, for demonstrating purposes, with the right to the distributor to assign a like right to regularly licensed Victor dealers at the dealers' regular discount royalty, with the right to the dealers to convey the license to the public to use the said machine only when a royalty of not less than \$200.00 shall have been paid, and upon consideration that all the conditions of license shall be strictly observed. A
95 similar right is also granted to the distributor to convey to the public the right to use this machine under the same conditions. No license to use this machine is granted to the public until the full royalty shall have been paid. This machine is not licensed for us for public entertainment for profit; for a license for such public use an extra license fee of ten per cent (10%) of the full royalty shall be payable. Title shall remain in the Victor Talking Machine Company; also the right to repossess the said patented goods upon the breach of any of the conditions upon the repayment by the Victor Company to the user of the royalty paid by him, less 5%
96 per annum of the full royalty for each year, or fraction of a year that the user shall have had the use thereof. The Victor Company also reserves the right for itself and its representatives to inspect, adjust and repair this machine at all reasonable times while in the possession of the user, and to instruct the user in its use, but assumes no obligation so to do. All patent rights are reserved by the li-

ensor except those hereby granted to the licensees upon the performance of the conditions noted. Any excess use, or violation of the conditions, will be an infringement of the said patents. The patents under which this machine is manufactured and licensed for use are among others, as follows: (here follows a long enumeration of the numbers and dates of issue of various patents); and other U. S. Patents under which this machine or parts thereof are manufactured.

"No license is granted to use this machine in any altered or changed condition, or with any parts not manufactured by this Company. This machine is licensed for use only in the condition, construction and arrangement in which it is put out by us, and any use of this machine, or parts thereof, in any other or altered construction or arrangement, will be construed as a violation of this license. This machine is licensed for use only with needles supplied by the Victor Company; needles will be supplied by the Victor Company, direct to any licensee of any of its patented machines at wholesale price, upon written request.

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"This license is good only so long as this label remains on this machine; any erasure, alteration or removal of this label, or of any of this Company's labels, or marks attached to this machine, will be construed as a violation of this license. This machine, at the expiration of the patent having the longest term to run, under which it is licensed, shall become the property of the licensee (the machine being then free of the patents, the subject-matter of the license), provided that the licensee shall have faithfully observed the conditions of license, and the Victor Company shall not have

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previously taken possession of the machine as here-in provided.

"An acceptance of this machine is an acceptance of these conditions.

"All rights revert to the undersigned in the event of violation.

"VICTOR TALKING MACHINE COMPANY,
"Camden, N. J.

"August 1, 1913."

A somewhat similar license notice is affixed to every sound record or its envelope.

A study of these various documents leads to the conclusion that complainant has undertaken to avoid making such a sale of its machine as would permanently pass it beyond any further control by itself. We think it has succeeded in so doing; this is not a sale outright, or a conditional or restricted sale, or any sale at all.

Under the authorities the owner of a patent who manufactures machines under such patent can give the right to use to whom he pleases upon what conditions he may choose to impose. Some of those conditions may involve pecuniary return, such as royalties, rentals for fixed periods, specified lump sum compensation for the whole period. We do not see why he may not give to one person a more restricted right to use than he does to another. The *Dick* case, 224 U. S., 1, establishes the proposition that a restriction to use only with other products of the patentee is legitimate. Of course the giving to any person of a "right to use" things of this sort is an idle thing unless the person is

also supplied with the physical thing to be used, to hold the same while he is enjoying the use and complying with its terms.

Turning now to the license notice. What is granted by the patentee is "only the right to use" the particular machine, unaltered, without parts not manufactured by the Victor Company, maker and owner of the patents and only with records and needles made by the Victor Company, and to use it only so long as the notice unerased and unaltered remains on the machine. The term for which this right to use is granted is a fixed period, "for the term of the patent having the longest term to run"—this term is ascertainable with precision by reference to the notice affixed to the machine which enumerates all the patents.

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The character of the use is not the same in all cases.

1. To "Victor distributors" there is given a right to use only for "demonstrating."

As the sole result of demonstration is to induce the public to get the machines, it may be assumed that these distributors are paid by the Victor Company.

2. To regularly licensed "Victor dealers" there is also given a right to use for "demonstrating" purposes. Sometimes conveyance of such right to use is made directly by the Victor Company to the licensed Victor dealer. Sometimes the conveyance is made to the "dealer" by the "demonstrator," who, by the terms of the notice, is expressly authorized to convey such right to the dealer. These dealers, of course, do not use these machines for their per-

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sonal enjoyment; their demonstrations are given to induce the public to apply for machines and they are paid by a commission on the amount paid by every person who may be induced by them to take one.

3. To the public, *i. e.*, to individuals who wish to use the machines generally.

107 Apparently such conveyances are not made directly by the manufacturer; they are made by "Victor Distributors" or by "licensed Victor Dealers," who are expressly empowered to make such conveyances. For each one of such machines the person to whom a right to use the same is granted and a machine delivered, to be by him used, shall pay a lump sum, which varies with the type of machine.

This is called a royalty; in effect it is a payment in advance covering use for the entire term—down to the expiration of the last patent. During such term the restrictions as to parts, integrity of notice, needles, record, etc., are in force and the manufacturer reserves title in itself. Of course when the patents expire, no such restrictions could be maintained and, therefore, when that time comes, any licensee (or user) in whose hands a machine may be and who has faithfully observed the conditions, 108 shall receive full title to the same.

The documents are long and complicated, but it seems to us that this is what they provide for. We do not know why, under the law and the authorities, a patentee may not thus dispose temporarily of the use and ultimately of the title of machine made by him and protected by his patent.

The order is reversed.

Supreme Court of the United States

OCTOBER TERM, 1915.

IN EQUITY.

JESSE I. STRAUS, PERCY S.
STRAUS and HERBERT N.
STRAUS, individually and as
co-partners, trading under
the name of R. H. MACY & Co.,
Petitioners,

against

VICTOR TALKING MACHINE COM-
PANY,
Respondent.

BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI.

PRELIMINARY STATEMENT.

The petition for a writ of certiorari prays for the review of a judgment of the Circuit Court of Appeals, which reversed the final decree entered by the District Court upon a motion to dismiss the complaint under the new equity rules, which abolished demurrers and substituted a motion to dismiss in place thereof.

Under the former practice this Court, where a decree sustaining a demurrer in the lower Court had been reversed in the Circuit Court of Appeals, granted the writ of certiorari to review where the questions involved were of first impression, or where there was a conflict in the various Circuits in the decisions that had been rendered upon that question.

In *Equitable Life Assurance Society of the United States v. Brown*, 213 U. S., 25, under precisely similar conditions to the case at bar, the writ was granted; the Circuit Court of Appeals was reversed, and the decree of the District Court, dismissing the complaint, became final.

In the case at bar, the interpretation of the license notice as a limitation upon the petitioners' right to use, sell or transfer the limited use, is of the most vital importance, not only to the petitioners, but to the commercial world which deals in or uses patented, copyrighted or trade marked articles. Moreover, a reversal by this Court of the action of the Circuit Court of Appeals will result in the dismissal of the bill and the final determination of the cause.

THE CASE PRESENTED.

In addition to the facts set forth in the petition, attention is called to the fact that throughout the original bill and its amendments complainant (respondent here) has carefully avoided any explanations which adequately describe the relations of the "distributor" or the "licensed dealer" or "distributing dealer" to the complainant. It is significant that appellant's brief, both on this as well as

on the former appeal, does not give any further light upon this subject, and, in fact, ignores that relation, although it is of the utmost importance to determine the character of the transaction between the "licensed dealer" and the complainant. Complainant itself seems to be in doubt as to what those relations really are, and what consequences flow from them.

On the first appeal, the theory they proceeded upon was stated as follows (p. 10) :

"The cause of action relied on is purely an infringement of patent, and the relief prayed accords therewith. To repeat, concisely, it charges infringement of patents by a person who, *though having lawfully obtained possession of patented machines and patented sound records, under a conditional contract of sale coupled with a limited license to use only, and under specified conditions of use, has undertaken to go beyond these rights he thus lawfully acquired; to violate and infringe the patentee's reserved rights.*" (Italics are ours.)

On the second appeal this admission was not made, and it was suggested that the possession was not lawful because petitioners were not *licensed* and they had not paid the full list price as members of the purchasing public.

Whether, in fact, that possession is lawful or unlawful is to be determined, not by the complainant, but by the Court, and its decision must depend, not upon how the complainant chooses to characterize that possession, but upon the real relation of the complainant to its "distributors" or "licensed dealers."

If that relation was a real agency, then the title to the instruments never passed out of the com-

plainant until the list price was paid, and defendants could not acquire title by means of a sale, conditional or otherwise, unless that full price were paid. Otherwise their possession might be unlawful.

If, on the other hand, the complainant received all the cash that it would ever be entitled to when it delivered an instrument to a "distributor" or "licensed dealer," then the title thereto passed *lawfully* to the person who made the payment and he had, under the ruling in the *Sanatogen* case (*Bauer v. O'Donnell*, 229 U. S., 1), a lawful right to transfer that title and the possession of the instrument to whomsoever he chose, free from any price restriction dictated by the complainant. Although the sale might be qualified by restrictions as to use, the *possession of the purchaser was altogether lawful*.

The petitioners claim that the latter condition prevails here. That was the view of Judge HAND on the former appeal, who said:

"The only question is whether a patentee who has once received his royalty covering the use of the patented article during the entire life of the patent, can, by his license, prevent the transfer of the use by his licensee in a case where upon the expiration of the patent there is a sale of the machine itself to the ultimate possessor conditioned upon the observance of the terms of the license."

And in reliance upon the *Sanatogen* case (*Bauer v. O'Donnell*, 229 U. S., 1), he answers the question in the negative.

On the argument before Judge HOUGH he announced substantially the same view in his oral opinion.

What the relation is between complainant and its "licensed dealers" and "distributors" is clear from the complaint, although it would be much clearer still if the complainant had seen fit to include the complete contract instead of parts of it.

It is conceded that after the *Sanatogen* case (in which this complainant was represented through its counsel, who filed a brief in the Supreme Court), the plaintiff adopted a new system of marketing its goods. It evidently considered its previous method as condemned in the *Sanatogen* case, but being desirous of securing to itself for the future the benefits of its past practices, it adopted a system which merely uses the terms and phrases of the *Sanatogen* decision as a cloak for the continuance of its former methods. Throughout the so-called "license agreements" the term "sale" cannot be found, and yet it is clear that those agreements are really sales. The plain purpose of the agreements is, as Judge HAND very properly observes, "to maintain the market for the talking machines and sound records at the prescribed royalty." The term "royalty" really is "purchase price."

The method of marketing the goods, as disclosed in part by the record, is that the complainant issues a so-called license to a "*distributor*" to sell instruments and records at wholesale to dealers. The "*distributor*" pays for the goods delivered to him, and no further or additional payment is required of him. The "*distributor*" is permitted to sell the instruments and records to so-called "licensed dealers," that is, dealers at retail who have received from the complainant a license to deal in its goods. Such "licensed dealers" do not purchase from the complainant, but from the "*distributors*," paying them a fixed price or royalty. Their sole

contractual relation with the complainant, if any exist at all, must be found in the so-called "license agreement." The complainant has no further interest in the purchase price that the retail dealer is bound to pay. The retailer is required by his "license agreement" to sell to the public, or, as it is called in the bill, "the ultimate consumer," at the list price. No portion of that list price goes to the complainant, nor is any further payment due for any further use.

It is true that, in addition to the "royalty," the use of the patented machine is limited to the patented records and the needles supplied by the complainant. This restriction, however, in no way affects the title to the machine or the record, but merely its use. If the purchaser of the machine desire to purchase additional records, from time to time, he may do so at his pleasure, *but he is not bound to do so*. It is not necessary, as in the *Dick* case (*Henry v. Dick*, 224 U. S., 1), for the proper use and operation of the machine, that there should be a constantly new supply of records to be furnished by the complainant.

The right to compel the use of the machine with the records and needles, is a question of no importance in this case, as *there is not the slightest attempt to charge that that particular feature of the "license agreement" was violated by the petitioners, nor is there any question as to mutilation of license plates*. There is no intimation that these petitioners did not pay the full "royalty" demanded of them. The complainant claims the right, by virtue of the Patent Law, to restrain the petitioners from any transfer of the instruments and records so acquired, solely because the petitioners have not been designated as "licensed dealers," and therefore have no right to part with

the possession and the use of the machines so acquired.

The petitioners are in lawful possession of the instruments and records which they have acquired. They have paid the full purchase price for the same exacted by whomever was their predecessor in title. Their possession, even if the terms of the "license agreement" can be literally construed as binding, cannot be disturbed by anybody, except upon repayment of the sums paid by them, less a certain small percentage for each year's use. By the terms of that agreement, their right of possession will become an absolute title at the expiration of the youngest patent. In other words, they have all the *indicia* of ownership of the instruments and records, and the only qualification upon an absolute ownership is that they must use the instruments and the records in conjunction with each other.

Whatever terms complainant may choose to apply to the transaction, it is clearly nothing but a series of sales either of the physical instruments or of the right to use them: (1) to the wholesale "distributor"; (2) by the wholesale "distributor" to the "dealer," and by the "dealer" to the "ultimate consumer," that is, at retail to the public, subject to whatever restrictions are permitted under the decision of this Court in the *Dick* case.

The petitioners contend:

(1) That the restriction as to the use of the instruments, with the records and needles, not having been violated, need not be considered.

(2) That the complainant, having received all the royalty to which it was entitled when it trans-

ferred possession of the instruments, exhausted its "monopoly to vend," although it may have retained a portion of the monopoly to "use," and that it could not, by the notice attached to the instrument, limit or control the consideration to be exacted for subsequent transfers of the same.

(3) That the system of marketing its goods adopted by the complainant would not be lawful if applied to unpatented articles.

(4) That even if such a method of marketing goods be lawful in individual cases, it becomes unlawful and contrary to the Federal Anti-Trust Statutes when it is made the subject of agreements with seven thousand dealers scattered throughout the United States.

POINT I.

The Circuit Court of Appeals erred in its rulings concerning the meaning, effect and legality of the agreements in question.

The Circuit Court of Appeals held that though there was a transfer of possession by the complainant to the "distributors" and "licensed" dealers (through whom petitioners acquired whatever rights they have), and though they apparently were clothed with all the *indicia* of ownership, there was no *sale*, conditional or otherwise, and that by reason of the principles announced in the *Dick* case, the complainant could control the use and the price at which the use could be transferred. In its decision on the first appeal it had held that

a purchaser, who paid all that was demanded of him, that is, the full *list* price, received from the dealer such an interest in the instruments and records as would permit his transferring its possession and its use, at whatever price he chose, and to whomever he selected, despite the prohibition in the license agreement. On the second appeal the Court held, in substance, that the "licensed" distributor and the "licensed" dealer who had paid to the complainant all that was asked of them did *not* have the power to so transfer the instruments or records or to permit their use.

It is practically conceded that if there were a *sale* of the physical instrument, the right to control its subsequent resale is denied by the *Sanatogen* decision already referred to.

The Circuit Court of Appeals, to sustain its conclusions, was, therefore, bound to hold that the documents contained in the bill of complaint constituted neither a sale nor a conditional sale.

The complainant in the Court below, though conceding that in case of a sale there could be no subsequent control of the resale price, contended that the documents created a *conditional sale* with a *limited license to use*, and in its argument and briefs insisted that the distinction between the *Sanatogen* case and the case at bar lay in the fact that in that case there was an *unconditional sale* of the article in question, while in this case there was "a qualified or conditional sale" with a "limited license to use." And if there were a conditional sale, the petitioners contend that the *Sanatogen* case is controlling. The mere fact that a condition, whether precedent or subsequent, is attached would not change the rule laid down in that case.

Furthermore, while petitioners insist that the agreements amounted to a sale, yet, assuming that there was no sale in the ordinary acceptation of the term, they contend that the right to transfer the "license to use" can be made the subject of a sale, and that the resale price of that "license to use" cannot be controlled under the Patent Law any more than the resale price in the case of a sale which passes the title conditionally or otherwise.

It must be borne in mind that *there is no charge of any infringement of the use of the instruments with other than the records and needles stipulated in the license.*

The facts in the *Sanatogen* case are very similar to the facts in this case. In the present case the first limitation of the "license," *i. e.*, "no license to use this machine (or record) is granted to the public until the full royalty shall have been paid," is the basis of the complainant's claim of a condition precedent to the passing of the title and the right of possession and use.

In the *Sanatogen* case the notice was as follows:

"This size package of Sanatogen is licensed by us for *sale* and *use* at a price not less than One Dollar. Any sale in violation of this condition or use when so sold will constitute an infringement of our patent No. 601,995, under which Sanatogen is manufactured, and all persons so selling or using packages or contents will be liable to injunction and damages. A purchase is an acceptance of this condition. All rights revert to the undersigned in event of a violation."

It will be noticed that *the use* of the article is restricted in this notice in the same manner as in the case at bar, that is, the article was to be *used*

only if \$1 was paid for it, as in this case the public was only to use the talking machine in case it paid the \$200 royalty. Concerning this phraseology, Judge DAY says:

"But in view of the fact certified in this case as to what took place concerning the article in question, *it is a perversion of terms to call the transaction in any sense a license to use the invention.* The jobber from whom the appellant purchased had previously bought at a price which must be deemed satisfactory, the packages of Sanatogen afterwards sold to the appellee. The patentee had no interest in the proceeds of the subsequent sales, no right to any royalty thereon or participation in the profits thereof. The packages were sold with as full and complete title as any article could have when sold to the open market, *excepting only the attempt to limit the sale or use when sold for not less than \$1;* in other words, the title transferred was full and complete, with an attempt to reserve the right to fix the price at which subsequent sales could be made. There is no showing of a qualified sale for less than value for limited use with other articles only, as was shown in the *Dick* case. There was no transfer of a limited right to use the invention, and, *to call the sale a license to use, is a mere play on words.*" (Italics are ours.)

Eliminating all other provisions of the so-called license attached to the complainant's instrument than the one controlling the amount to be paid by the "ultimate purchaser" the only distinction that can be made between the two notices is that the complainants have omitted the word "sale" which appears in the *Sanatogen* notice. In each the right to use the article is licensed only in case a fixed

price be paid. In other words, when an article, whose sole value is in its use, is *licensed* to be transferred at retail only when the purchaser pays a fixed price, the patentee having received all the cash royalty that he is entitled to, it is a mere play upon words to give the transaction the name of a "license to use," whereby the patentee can control the subsequent resale. It is really a sale and the patentee's monopoly of vending is thereby exhausted. He has not thereby reserved to himself any field of the monopoly which is invaded by a breach of the license notice.

The patentee may license the sale of his article in a certain locality and the sale in any other locality will be an infringement of his exclusive right to sell in the other localities for which licenses were not granted, but he cannot sell the article, and by virtue of the Patent Law reserve the right to himself to dictate the price at which the article shall be *resold* by the purchaser. No field of monopoly reserved to him is invaded by such a resale. No matter how many articles are resold at less than the fixed price, the patentee has been paid all the royalty that he has demanded, and if the resale price be less than the royalty he has received, he does not bear the loss, and if the resale price be in excess of the royalty paid, he does not share in that excess. He has exhausted his monopoly of sale for that particular article when he receives the full price that he has exacted. If on the sale he makes conditions or agreements with the purchaser as to a resale, either as to price or method, his rights in case of a breach must be determined by the law which governs the sale of all chattels. This is the precise proposition that was first announced by the United States Supreme Court in passing upon the monopoly of sale under

the copyright law, in *Bobbs Merrill v. Straus*, and *Scribner v. Straus*, 210 U. S., page 339, in 1908, and was subsequently applied as to patents in the *Sanatogen* case.

As was pointed out by District Judge HOLLISTER in

Ford Motor Co. v. Union Motor Sales Co.,
225 Federal Rep., 373,

where a claim somewhat similar to the claim at bar was made, there is a difference between an agreement conveying the exclusive right given by the Patent Law to sell the patented article and a *sale by the patentee of the article itself*. In the one case the patentee grants the right to sell, as, for instance, where he manufactures, but does not himself market the goods, but grants to another the exclusive right so to do. In the other he, himself, sells. If he grants to another the right to sell, then he has parted with the exclusive right he had under the Patent Laws. He could make such a grant for a lump sum, or take his pay on a fixed royalty basis, and under the decision in the *Bement* case, 186 U. S., 70, he might fix the price at which his licensee could sell. Having the exclusive right to sell, the consideration that he receives for parting with that exclusive right is a matter of ordinary contract. If his licensee fails to pay the whole or any portion of the purchase price of the license, the remedy of the patentee is not under the Patent Law, but by an action on the contract.

Excelsior Wooden Pipe Co. v. Pacific Bridge Co., 185 U. S., 282.

Wilson v. Sandford (1850), 10 How., 99.

Hartshorn v. Day (1856), 19 How., 221.

Albright v. Teas (1883), 106 U. S., 613.

Dale Tile Co. v. Hyatt (1888), 125 U. S., 46.

Keeler v. Standard Folding Bed Co., 157 U. S., 659.

If a patentee sells the article *himself*, he does not part with any exclusive right under the Patent Law, except in so far as *the sale of that particular chattel carries with it the right to use it*, unless that right be qualified by an express reservation.

Judge HOLLISTER in the *Ford Motor Co.* case (*supra*), in considering the facts in the case before him, which, as in the case at bar, was an attempt to create "licensed dealers" and "conditional sales," or "restricted sales" with reservations of title, he further says:

"This contract does not give the vendee the right to sell. It sells to him the article, *and attempts to give him the right to resell*. He buys. The manufacturer-patentee sells the product to him, and then seeks to control the price at which he shall resell. If, upon payment by the dealer of the purchase price, the title of the machine passes to him, how can it be taken away because the user, to whom the dealer has sold, has paid a less price than the list price?" (Citing opinion of Judge RAY in *Waltham Watch Co. v. Keene*, 202 Fed., 225, 234, *et seq.*)

The Court further says in that case:

"If the patentee's exclusive right to sell is exhausted by a sale, the Supreme Court say he cannot, by a mere notice attached to the patented article, though brought home to the purchaser, add to or extend his right by fixing the price at which his vendee shall sell the same article. It must, therefore, be true that if the patentee had, by a sale of the article and the receipt of his price for it, passed the title to another, he cannot enlarge or extend that right by contract, nor in any other way, for he has parted with what he had. And when he seeks to fix the price at which his vendee shall sell, he brings into operation other laws and policies which conflict with such attempt: rules against restraints on alienation; the common law against restraint of trade and monopolies, and the Sherman Anti-trust Law against contracts, conspiracies and combinations to restrain trade, and to monopolize or attempt to monopolize the same."

In the *Dick* case (*Henry v. Dick*, 224 U. S., 1), this Court decided that the property right in the mimeograph machine had passed from the patentee, but that it was a sale qualified by *restrictions as to use*.

In that case the licensee's lawful possession and title to the instrument itself was never questioned. On the contrary, the whole argument of Judge LURTON is directed to establishing the principle that lawful possession may be so restricted as not to carry with it an unlimited right "to use" under the Patent Law. He says:

"The contention is not that a patentee may not permit the use of a patented thing with such qualifications as he sees fit to im-

pose, and that a prohibited use will be an infringing one, but that he can only keep the article within the control of the patent by retaining the title. To put the contention in another form—it is, that any transfer of the patentee's property right in a patented machine carries with it the right to use the entire invention so long as the identity of the machine is preserved, irrespective of any restrictions placed by the patentee upon the use of the article and accepted by the buyer. It is said that by such a sale the patentee 'disposes of all his rights under his patent, and thereby removes the article from the operation of the patent law.' If he attempts to sell the machine for specified uses only and prohibit all others, the restriction is disposed of as constituting a collateral agreement such as any vendor of personal property might impose and enforceable, if valid at all, only as a collateral contract.

The issue is a plain one. If it be sound, it concludes the case, and our response should be a negative one, since the violation of a mere collateral contract, which is not also an infringement of the patent, would not be a case arising under the patent law. But is it true that where a patentee sell his patented machine for a specific and limited use, he does not thereby reserve to himself, as patentee, the exclusive right to all unpermitted uses which may be made of his invention as embodied in the machine sold? Obviously, this is a question arising under the patent law. By a sale of a patented article subject to no conditions the purchaser undeniably acquires the right to use the article for all the purposes of the patent so long as it endures. He may use it where, when and how he pleases, and may dispose of the same unlimited right to another. This has long been the settled doctrine of this and all patent courts. *Mitchell v. Hawley*, 16 Wall.,

544; *Livingston v. Woodworth*, 14 How., 546, 550; *Adams v. Burke*, 17 Wall., 453, 456; *Folding Bed Cases*, 157 U. S., 659, 666. By such an unconditional sale of the thing patented, it is said to be 'no longer within the limits of the monopoly. It passes outside of it and is no longer under the protection of the act of Congress.' "

After discussing the cases which permit the separation of possession from the use, he further says:

"The argument for the defendants ignores the distinction between the property right in the materials composing a patented machine, and the right to use for the purpose and in the manner pointed out by the patent. The latter may be, and often is, the greater element of value, and the buyer may desire it only to apply to some or all of the uses included in the invention. But the two things are separable rights. If sold unreservedly the right to the entire use of the invention passes, because that is the implied intent; but this right to use is nothing more nor less than an unrestricted license presumed from an unconditional sale."

There was not the slightest doubt that the terms "conditional sale" and "qualified sale" used by the Court in the *Dick* case had no reference whatsoever to the title or possession of the physical thing itself. An absolute and complete title to the materials of that machine had been passed with the condition limiting its *use* only and not the *title*, and in that sense only was it a "qualified sale" or a "conditional sale"; and in that sense only were those terms used in that decision, and in the *Sanatogen* decision, and not a condition or qualification of the *title*.

In the sense that the "conditional sale" or "qualified sale" is a condition upon, or qualification of, the use of the instrument, petitioners do not quarrel with those terms as used, either in the license agreement or in the argument below.

In the sense, however, that they affect the title, or right of possession to the instruments in question, petitioners do not acquiesce. It is perfectly clear that when the respondent attempted to revise its contracts so as to make them conform to the law as interpreted in the *Sanatogen* case, they mistook phraseology for substance; they interpreted the terms "conditional," "unconditional" or "qualified" sales as conditions or qualifications upon *title* and not, as is clearly the case, upon *use*.

A "conditional sale" affecting the title is as much the exercise of the exclusive right to vend as an "unconditional sale" so far as the breaches of the conditions are concerned. If Victor machines are sold upon the instalment plan, with the reservation of title until the last instalment is paid, the failure to pay an instalment entitles the vendor to resume possession and title, or to sue for the instalment, but gives him no remedy under the Patent Law. The failure to pay an instalment when due, invades no reserved field of monopoly of sale any more than the failure to pay a license royalty, when due, invades any field of the reserved monopoly.

Excelsior Wooden Pipe Co. v. Pacific Bridge Co., 185 U. S., 282; and cases cited.

Even in the *Dick* case, in passing upon the theory of the *Pacific Bridge Company* case, the Court says:

"But the three conditions of the license there referred to were: First, to pay royal-

ties; second, that the transferee would not transfer or assign the license without consent of the licensor; third, that the failure to use the license in the manufacture of pipe should operate to revoke it. IT IS EVIDENT THAT THE LICENSEE WOULD NOT HAVE INFRINGED THE PATENT BY EITHER FAILING TO PAY ROYALTIES, BY ASSIGNING THE LICENSE, OR BY NEGLECTING TO USE HIS PRIVILEGE. *The licensor would clearly have been compelled to rely wholly upon his contract, as such, in any suit for the violation of any of the conditions named.* (Italics are ours.)

In the *Sanatogen* case this is clearly pointed out.

In that case, as in this, the article was licensed for use by the public if it paid a price not less than \$1, and this Court said:

"To call the sale 'a license to use' is a mere play upon words,"

and in interpreting the terms "to vend" and "vending" used in the copyright and patent statutes, it defines a sale:

"So far as the use of the terms 'vend' and 'vending' is concerned, the protection intended to be secured is substantially identical. The sale of a patented article is not essentially different from the sale of a book. In each case TO VEND IS TO PART WITH THE THING FOR A CONSIDERATION."

This is equally applicable to the case at bar, but was ignored by the Circuit Court of Appeals.

The system of marketing complainant's goods is obviously an effort to disguise the wholesale dealer under the mask of a "distributor," and the retail dealer under the mask of a "licensed dealer."

When the "distributor" or "licensed dealer," who concededly was in lawful possession under a "conditional sale," paid to the complainant the full royalty which he exacted and to which he was entitled, it clearly was a *sale* and the particular instruments purchased passed out of the exclusive right to "vend" granted by the Patent Law, and any subsequent transfer of the *title* to, or *possession* of the instruments cannot be restrained under the Patent Law. And whether or not any agreement was broken, the title and possession lawfully in them is equally lawful in these defendants to whom their title and possession was transferred and who can retransfer the same at will without infringing any patent right.

The "list price" is not the price which the patentee expects to receive. The complainant receives no portion thereof. That is not the price which emancipates the article from the patent control; the "list price" is the price which the *dealer* is expected to receive from the public, and which reimburses him for the royalty already paid to the complainant. The payment of that royalty and not of the "list price," emancipates the article from the patent monopoly, and enables the dealer to sell a lawful title and transfer a lawful possession without regard, as decided in the *Sanatogen* case, to the restriction attempted to be placed upon the resale price, but with the obligation, nevertheless, to observe the restricted use of the instrument with the records, or with the needles, as decided in the *Dick* case. If there be any conflict between the *Sanatogen* and the *Dick* cases, it is in the reasoning as to the rights and powers of a patentee in the entirely separate fields of use and sale.

In the case at bar, the theory of both cases can be applied without any conflict. In so far as the license agreement restricts the use of the instruments with the records and needles, the *Dick* case applies; in so far as the license agreement attempts to control the resale price of the instrument, the *Sanatogen* case applies. Neither under the *Sanatogen* case, nor under the *Dick* case, can there be found a single expression which would impair the lawful title and right of possession of the instruments which defendants have received from distributors, which could be assailed under the provisions of the Patent Law.

POINT II.

The complainant's system of marketing its goods is wholly contrary to the common law and statute law.

The complainant's whole output is marketed under a system which is intended to and will, if sustained, completely prevent competition, both in the supply and the price of its product, between the "distributor," or the wholesale dealers, in the wholesale price, the "licensed dealer," or the retailers, in the retail price, and even control the subsequent transfer of the article by the "ultimate purchaser," so that he cannot sell, assign or transfer the same. Although the complainant has received every penny that it is entitled to, the system, if legal, would enable it to hold a rigid control over all subsequent dealings in the instruments which have passed from its possession into the lawful possession of others, whose possession, according to the terms of the contract itself, can be disturbed

only in case complainant returns the "royalty," or purchase price paid, less a discount for each year's use.

The system further permits, if sustained, the complainant, which concededly may select its own customers, to refuse capriciously to "license" a retail dealer, and in consequence debar him from *any* dealings in the instruments or records with any distributor who has lawfully acquired possession from complainant.

Such a system applied to the ordinary articles of commerce would be and has been declared to be unlawful and in contravention of the common law as in restraint of trade, and against the anti-trust laws as both in restraint of trade and fostering monopoly.

John D. Park & Sons v. Hartman, 153 Fed. Reporter, 724.

Dr. Miles Medical Co. v. John D. Park & Sons, 220 U. S., 373.

Montague & Co. v. Lowry, 193 U. S., 38.

American Tobacco Co. v. U. S., 221 U. S., 180.

The fact that the instruments and records are produced under patents does not save the system from illegality.

Standard Sanitary Mfg. Co. v. U. S., 226 U. S., 49.

Straus v. American Publishers' Association, 231 U. S., 222.

United States v. Kellogg Toasted Corn Flake Co., 222 Federal Reporter, 725.

In *John D. Park & Sons v. Hartman* (*supra*) Judge LURTON, then sitting at the Circuit Court of Appeals, passed upon a system of marketing a proprietary medicine almost identical with complainant's system.

In that case, as in this, the wholesaler could only sell to retailers whose names were furnished by complainant, and who had signed a retailers' agreement obligating them to sell only to consumers at a price named by the complainant, or found on its labels and wrappers. He says, at page 42:

"The plain effect of the 'system of contracts,' the purposed relation of each to every other being confessed by the very description of the method of carrying on business stated in the bill, is first, to destroy all competition between jobbers or wholesale dealers in selling complainant's preparations. Complainant restrains himself by agreeing to sell at only one price and to only such persons as will sign one of his system contracts. The contracting wholesalers or jobbers covenant that they will sell to no one who does not come with complainant's license to buy, and that they will not sell below a minimum price dictated by complainant. Next, all competition between retailers is destroyed, for each such retailer can obtain his supply only by signing one of the uniform contracts prepared for retailers, whereby he covenants not to sell to anyone who proposes to sell again unless the buyer is authorized in writing by the complainant, and not to sell at less than a standard price named in the agreement. Thus all room for competition between retailers, who supply the public, is made impossible. If these contracts leave any room at any point of the line for the usual play of competition between the dealers in the product marketed

by complainant, it is not discoverable. *Thus a combination between the manufacturer, the wholesalers, and the retailers to maintain prices and stifle competition has been brought about. It is true that the complainant is not in a combination with other makers of 'Peruna.' There are no others. If there were, there would not be a complete or general restraint; for it might then happen that these others, not being bound by any covenants, could supply the public. If the supply to come from them was adequate for the public demand, the public might be in no wise affected. Now, if the complainant had absorbed all the sources from which the demand for lumber, or furniture, or stoves could be supplied and then should say, 'I will sell only to those who will resell only to those I shall license to buy and only at the price I dictate,' could any voice be raised to say that the covenants, which every dealer should sign in order to prevent exclusion from trade in such articles, would be upheld by the courts and a remedy by injunction granted to restrain breaches?"* (Italics are ours.)

In a subsequent case, *Dr. Miles Medical Co. v. John D. Park & Sons*, 164 Federal Reporter, 805, precisely the same system came before the Court, with the exception that in the *Hartman* case the contract between the manufacturer and the jobber was concededly one of sale, while under the *Dr. Miles* system it was claimed to be one of "consignment" or "agency," and not "sale."

Judge LURTON, again writing the opinion, says that even if it were an agency, it would not legalize the system.

"We see no substantial difference between the systems of contracts under which the *Dr. Miles Medical Company* is now conduct-

ing its business and that under which Dr. Hartman carried on his business as a manufacturer of Peruna, considered by this court at length in the case of *Jno. D. Park & Sons v. Hartman*, 153 F. R., 24. That case is pending, undecided, in the Supreme Court. The complainant's very learned counsel was the counsel for Hartman in that case and both systems of contracts are most probably the fruit of his acknowledged skill in respect to this class of business arrangements. No difference whatever is suggested between the system of contracts considered in that case and those here presented except, it is claimed, that the agreement with jobbers and wholesale dealers here involved is one of bailment or agency and not one of sale as in the *Hartman* case. *If this were admitted it does not in our judgment, operate to legalize the 'system' of which that agreement is but one part. The effect of that contract with jobbers, whether it be regarded as one of sale or of agency, is to restrain jobbers from selling to any save retailers licensed by complainant and to restrain retailers from selling for resale to any save those licensed to buy or to persons who buy for consumption only, and to none, by either jobber or retailer, except at a price imposed by the manufacturer. The confessed object of this plan or system is to obtain a price to the jobber and to the retailer unaffected by any competition between them. The scheme is one to enhance or maintain prices by eliminating all possibility of competing rates between either jobbers or retailers and is quite as effectual in its results as if the contract with the jobber was plainly one of sale.*" (Italics are ours.)

When that case came before this Court (220 U. S., 373), Mr. Justice HUGHES, analyzing the contracts, says:

"That these agreements restrain trade is obvious. That, having been made, as the bill alleges with 'most of the jobbers and wholesale druggists and a majority of the retail druggists of the country' and having for the purpose the control of the entire trade, they relate directly to interstate as well as intrastate trade and operate to restrain trade or commerce among the several states is also clear."

Again he says:

"But agreements or combinations between dealers, having for their sole purpose destruction of competition and the fixing of prices, are injurious to the public interest and void. They are not saved by the advantages which the participants expect to derive from the enhanced price to the consumer."

In *Montague v. Lowry* (*supra*), an association of wholesale dealers in tiles in San Francisco and vicinity and non-resident manufacturers of tiles, in which the dealers agreed not to purchase from manufacturers not members of the association, and not to sell tile to non-members for less than list prices, which were more than 50 per cent. higher than prices to members, while the manufacturers agreed not to sell their manufactures or wares to dealers at any price under penalty of forfeiture of membership, was condemned as an agreement or combination in restraint of trade.

The plaintiffs in that case were unable to procure tiles from the manufacturers at any price, or from the dealers in San Francisco at less than the list price, which was largely in excess of the price at which members of the association could buy the same.

In that case the association attempted to do precisely what the complainant attempts to do in the case at bar, that is, to dictate the persons who could deal in tiles, and for the purpose of such dealings, purchase the same at less than the "list price." Only members of the association were procured to make such purchases in the tile case; only licensed dealers or distributors are permitted to make such purchases in the case at bar, and the determination as to who was to be admitted in the membership in the one case or permitted to be a "licensed dealer" or "distributor" in the other case was not a matter of right, but left to the capricious decision of those who established the system.

Prior to the decision of the *Sanatogen* case, it was assumed that the manufacturer of goods under the monopoly of a patent had the lawful right of selling and at the same time controlling the resale price of his commodities; but even then it was held in the *Standard Sanitary Manufacturing Co. v. U. S.* (*supra*), Mr. Justice MCKENNA delivering the opinion of this Court, that where the manufacturers and jobbers of enamel ware combined for the same purpose and result as the association of manufacturers and dealers in tiles, which was condemned in *Montague v. Lowry* (*supra*), that:

"The added element of the patent in the case at bar cannot confer immunity from a like condemnation, for the reasons we have stated,"

and those reasons are as follows:

"In this statement certain things are prominent. Before the agreements the manufacturers of enameled ware were independent and competitive. By the agreements they were combined, subjected themselves to

certain rules and regulations, among others not to sell their product to the jobbers except at a price fixed not by trade and competitive conditions but by the decision of the committee of six of their number, and zones of sales were created. And the jobbers were brought into the combination and made its subjection complete and its purpose successful. Unless they entered the combination they could obtain no enameled ware from any manufacturer who was in the combination, and the condition of entry was not to resell to plumbers except at the prices determined by the manufacturers. The trade was, therefore, practically controlled from producer to consumer and the potency of the scheme was established by the co-operation of 85 per cent. of the manufacturers and their fidelity to it was secured not only by trade advantages but by what was practically a pecuniary penalty, not inaptly termed in the argument 'cash bail.' The royalty for each furnace was \$5, 80 per cent. of which was to be returned if the agreement was faithfully observed; it was to be 'forfeited as a penalty' if the agreement was violated. And for faithful observance of their engagements the jobbers, too, were entitled to rebates from their purchases. It is testified that 90 per cent. of the jobbers in number and more than 90 per cent. in purchasing power joined the combination.

The agreements clearly, therefore, transcended what was necessary to protect the use of the patent or the monopoly which the law conferred upon it. They passed to the purpose and accomplished a restraint of trade condemned by the Sherman Law. It had, therefore, a purpose and accomplished a result not shown in the Bement case. There was a contention in that case that the contract of the National Harrow Company with Bement & Sons was part of a contract

and combination with many other companies and constituted a violation of the Sherman Law, *but the fact was not established* and the case was treated as one between the particular parties, the one granting and the other receiving a right to use a patented article with conditions suitable to protect such use and secure its benefits. And there is nothing in *Henry v. A. B. Dick Co.*, 224 U. S., 1, which contravenes the views herein expressed." (Italics are ours.)

In *Straus v. American Publishers' Association* (*supra*) the owners of several separate copyrights entered into agreements between themselves concerning the supply and price of books published under their separate copyrights. In that case the Court of Appeals of the State of New York had decided that the agreement between the publishers in so far as it sought to control the price and supply of *uncopyrighted* books was unlawful but that the copyright statutes granted a monopoly of the sale of *copyrighted* books; that a combination between the owners of that monopoly of sale was lawful, and not subject to attack under the local or Federal anti-trust laws.

That case then came to this Court by writ of error. Mr. Justice DAY, writing the opinion for the unanimous Court, says:

"In the case of *Standard Sanitary Mfg. Co. v. United States*, 226 U. S., 20, this court had under consideration the effect of the patent statute upon agreements found to be unlawful under the Sherman Law, and the agreements condemned were held not to be protected as within the patent monopoly conferred by the statute. Replying to the contention as to the protection which the pat-

ent law gave to enter into such agreements, this court said (p. 49):

'Rights conferred by patents are indeed very definite and extensive, but they do not give any more than other rights an universal license against positive prohibitions. The Sherman Law is limitation of rights, rights which may be pushed to evil consequences and therefore restrained.'

So, in the present case, it cannot be successfully contended that the monopoly of a copyright is in this respect any more extensive than that secured under the patent law. No more than the patent statute was the copyright act intended to authorize agreements in unlawful restraint of trade and tending to monopoly in violation of the specific terms of the Sherman Law, which is broadly designed to reach all combinations in unlawful restraint of trade and tending because of the agreements or combinations entered into to build up and perpetuate monopolies."

In view of these decisions it is clear that contracts, agreements or combinations which tend to control the supply and price of patented articles are unlawful and against the statutes against monopoly as much as similar combinations concerning unpatented articles.

In *United States v. Kellogg Toasted Corn Flake Co.* (*supra*), an action brought by the United States in equity under the Sherman Anti-Trust Law attacking certain price restrictions imposed by the manufacturers upon the resale of Kellogg's Toasted Corn Flakes, the case was heard under the Expedition Act before Circuit Judges WARINGTON and KNAPPEN, and District Judge TUTTLE.

The defendant was the owner of a patent on cartons or packages and sold its breakfast food in such

cartons under a system of uniform prices to the jobbers, and for the purpose of compelling a uniform price at retail, had attached to each carton the following notice:

"This package and its contents are *sold conditionally* by us with the distinct understanding, which understanding is a condition of the sale, that the package and contents shall not be retailed, nor advertised, nor offered for sale at less than 10 cents per package. Retailing the package at less than 10 cents per package is a violation of the conditions of sale, and is an infringement on our patent rights, and renders the vendor liable to prosecution as an infringer.

Kellogg Toasted Corn Flake Company,
Battle Creek, Michigan."

The Court considered the rights of patents and says:

"The petition charges that restraint and monopoly are actually effected. When it is once established that the monopoly of the patent does not continue after the right of sale has once been exercised, the case is to be considered as if there were no patent; and so considered, the case falls directly within cases such as the *Miles Medical Company* against *Parks* cases and other cited in this opinion."

Even if the patent monopoly extended to resale, a combination between seven thousand dealers throughout the United States at wholesale and retail to carry the system of complainant's into effect would be unlawful and contrary to the anti-trust statutes. But since the *Sanatogen* case has decided that the patent does not control the field of resale, the system is clearly unlawful.

POINT III.

If the contract could be construed as a limitation upon the title of the instruments and records, it would be unenforceable under the Patent Law, and void as a restriction upon alienation.

To say that the Patent Law does not give the right to manufacture, use or vend, but merely the right to *exclude* others from manufacturing, using or vending, has been abundantly iterated and reiterated in the decisions. When a patentee, therefore, manufactures, uses or sells his article, he exercises no right bestowed by the Patent Law, because he could manufacture, use or sell his product even though he had no patent. When he exercises any of those rights he must conform to the law which prevails and controls the manufacturers of other articles that are not patented. He cannot manufacture explosives, for instance, in a community which forbids the manufacture of explosives. He cannot use his product if that use violates the law of the land. He cannot sell his article if the sale thereof be forbidden.

Illustrations of these limitations upon the use and sale of products manufactured under patents can readily be found in the prohibition placed, in most communities, upon the sale and the use of injurious drugs or adulterated foods.

Having, therefore, only the right of *excluding others* from the manufacture, sale or use of his article, a *sale* by him is not the exercise of any new right, and is governed by the same law as governs unpatented articles; and a sale by him which restricts the right of alienation is as unenforceable in a patented as it is in an unpatented article.

The clauses in the agreements in the case at bar which are relied upon to make the contract a "conditional sale," and the language of that contract, as well as the argument in the brief below, strongly support the inference that it was intended to create the appearance of a qualified title for the deliberate purpose of making it fit the language used by Mr. Justice DAY in the *Sanatogen* case, without, however, changing the actual aspect of the transaction in the slightest degree.

But if a "conditional sale" was made, then the condition, namely, that the use of the machines and records could not be transferred during the life of the youngest patent, is repugnant to the law against alienation of personal property, and directly contrary to the statutes of the State of New York.

The Personal Property Law, Section 11, Laws of 1909, Ch. 45, provides:

"That the absolute ownership of personal property shall not be suspended by any limitation or condition for a longer period than during the continuance and until the termination of not more than two lives in being at the date of the instrument containing such limitation or condition."

If neither the petitioner nor the respondents can transfer the title until the expiration of the youngest patent, then it is very clear that during that period the absolute ownership cannot be transferred for a fixed and determined period, to wit, the life of the youngest patent.

It has been repeatedly held in this State that a period of time, however short, *cannot be substituted in place of two lives in being* as the measure of

the period during which personal property cannot be alienated.

Underwood v. Curtis, 127 N. Y., 523, at p. 538.

Schettler v. Smith, 41 N. Y., 328.

But it may be argued that the title is in the complainant, though the right of possession and the right of use are in the petitioners during this period, and that the complainant can transfer this limited interest, although it cannot transfer a complete title because the licensee is entitled to the reversionary interest upon the expiration of the youngest patent and has in the meantime the use and possession. It is, however, clearly established that in order that the "*absolute*" ownership of property shall not be suspended, *all interests* in it must be both alienable and vested. If any interest is not alienable, or is contingent, the ownership is not absolute.

Matter of Wilcox, 194 N. Y., 288.

In *Miles Med. Co. v. J. D. Park & Sons*, 220 U. S., 373, Mr. Justice HUGHES in passing upon the system there involved, where there was an attempt to disguise the wholesale dealers in the mask of agents, upon the theory that in that character, one link in the system for the suppression of the cut-rate business might be regarded as valid, took up the question of such a system constituting a restraint upon alienation, and quotes with approval Judge LURTON's opinion in *John D. Park & Sons Co. v. Hartman*, 153 Fed., 24, as applicable to the case. (See also *Gray on Restraints on Alienation*, §§27 and 28.)

POINT IV.

Most serious and disturbing consequences will follow if the decision of the Circuit Court of Appeals sustaining the system of marketing goods under consideration be approved by this Court.

If patented articles can be passed from hand to hand with a lawful exclusive possession concededly in each person to whom they are passed; with the lawful exclusive use of the articles in the persons in possession; with the ultimate title to be vested in the possessor; with full payment of all that he ever expects to get being made to the patentee; with all *indicia* of ownership in the purchaser, and the transaction be not regarded as a sale subject to the ordinary rules of law governing sales, but only as a license to use, protected by the Patent Law, there will be a serious disturbance in the methods of commercial dealing, whose consequences cannot be foretold. Not only will the Federal courts have sole jurisdiction to the exclusion of the State courts, but State laws, enacted for the purpose of the protection of the public to prevent imposition and fraud, will practically be annulled. Thus, in the State of New York, it has been found necessary to prevent fraudulent dealers from securing unwarranted credit through the purchase of quantities of goods under contracts which reserve the title to the vendor. The vendee being in possession, presents the appearance of being the owner of a large stock of goods on hand and of being correspondingly responsible financially. When financial troubles arise, the original vendor, claiming ownership by reason of reservation of the title, deprives creditors of his vendee of most of the

assets upon which they relied in extending credit.

The New York Legislature, for the purpose of preventing such impositions, passed Section 62 of the "Personal Property Law" which provides as follows:

Section 62: Conditions and reservations in contracts for the sale of goods and chattels.

"Except as otherwise provided in this article, all conditions and reservations in a contract for the conditional sale of goods and chattels, accompanied by delivery of the thing contracted to be sold, to the effect that the ownership of such goods and chattels is to remain in the conditional vendor or in a person other than the conditional vendee, until they are paid for, or until the occurrence of a future event or contingency, shall be void as against subsequent purchases, pledgees or mortgagees, in good faith, and as to them the sale shall be deemed absolute, unless such contract of sale, containing such conditions and reservations, or a true copy thereof, be filed as directed in this article, and unless the other provisions of the lien law applicable to such contracts are duly complied with * * *."

And Section 65, which provides as follows:

"Sale of property retaken by vendor.— Whenever articles are sold upon the condition that the title thereto shall remain in the vendor, or in some other person than the vendee, until the payment of the purchase price, or until the occurrence of a future event or contingency, and the same are retaken by the vendor, or his successor in interest, they shall be retained for a period of thirty days from the time of such retaking, and during such period the vendee or his successor in interest, may comply with the terms of such

contract, and thereupon receive such property. After the expiration of such period, if such terms are not complied with, the vendor, or his successor in interest, may cause such articles to be sold at public auction. Unless such articles are so sold within thirty days after the expiration of such period, the vendee or his successor in interest may recover of the vendor the amount paid on such articles by such vendee or his successor in interest under the contract for the conditional sale thereof."

Under the license of the complainant, by which possession and title at the expiration of the patent is passed to the distributor and dealer, there is an attempted reservation of title in the vendor until the occurrence of a future event, and it is void as against subsequent purchasers under the laws of the State of New York, unless a copy of the license be filed. The respondent, if it repossessed itself of title, would be bound to hold the instruments for thirty days before it could dispose of them otherwise. Under the decision of the Circuit Court of Appeals, this statute is completely nullified.

CONCLUSION.

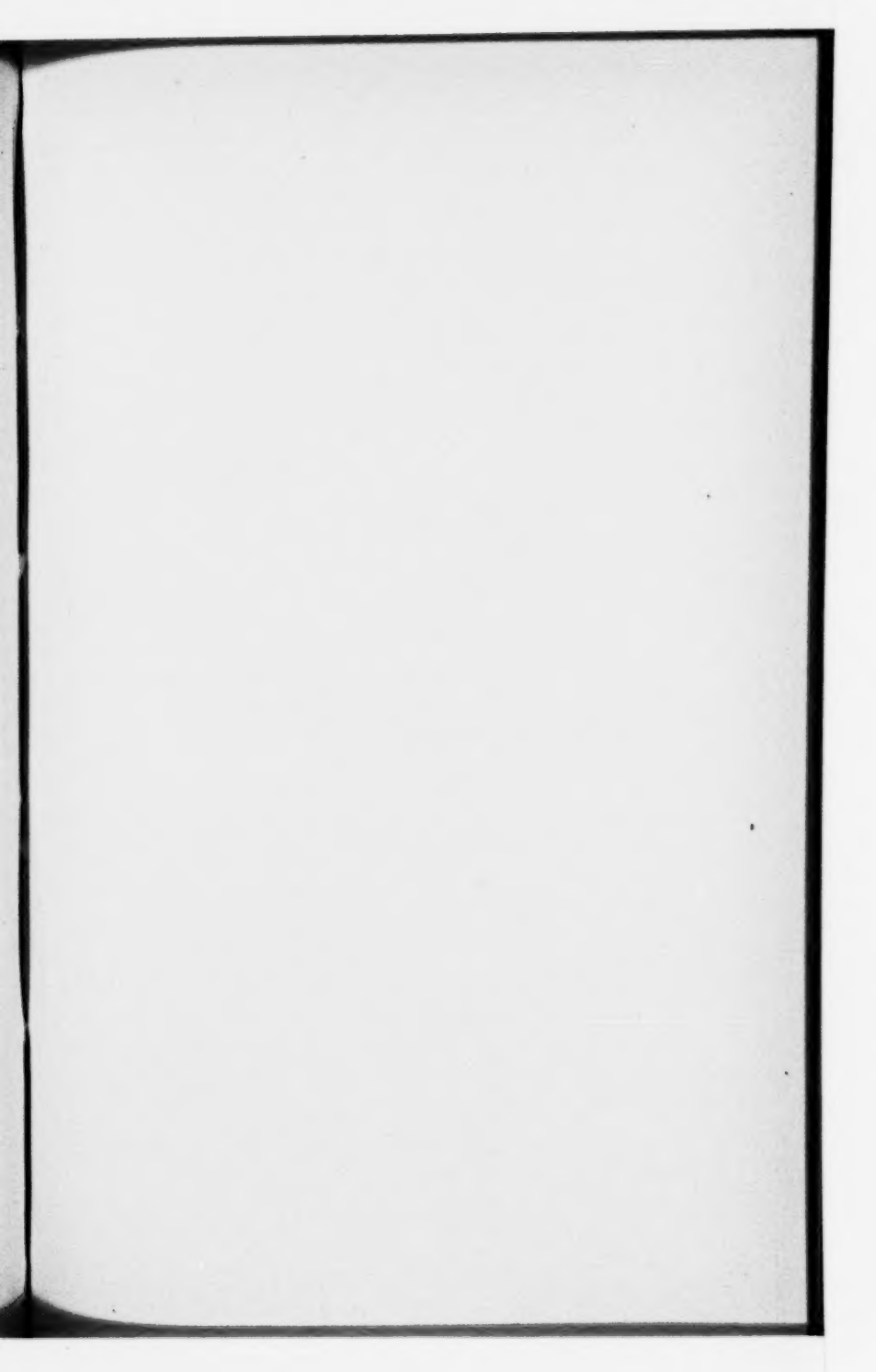
It is respectfully submitted that in view of the fact that the decisions of the Circuit Court of Appeals for the Second Circuit in this cause are apparently not in harmony with the decisions of this Court and are likewise in conflict with the decisions in other circuits upon the same questions, thereby throwing the law governing the dealings in patented articles into a state of uncertainty and confusion, a final determination by this Court of the question involved is of the highest importance

to the whole commercial community. Therefore, in the interests of uniformity of decisions and for the purpose of definitely settling a most important branch of the law, the petitioners pray that a writ of certiorari be granted as prayed for in the petition filed herewith.

Dated, New York, February 5, 1916.

WALTER C. NOYES,
EDMOND E. WISE,

Counsel for Petitioners,
R. H. MACY & COMPANY.



Supplement to the United States

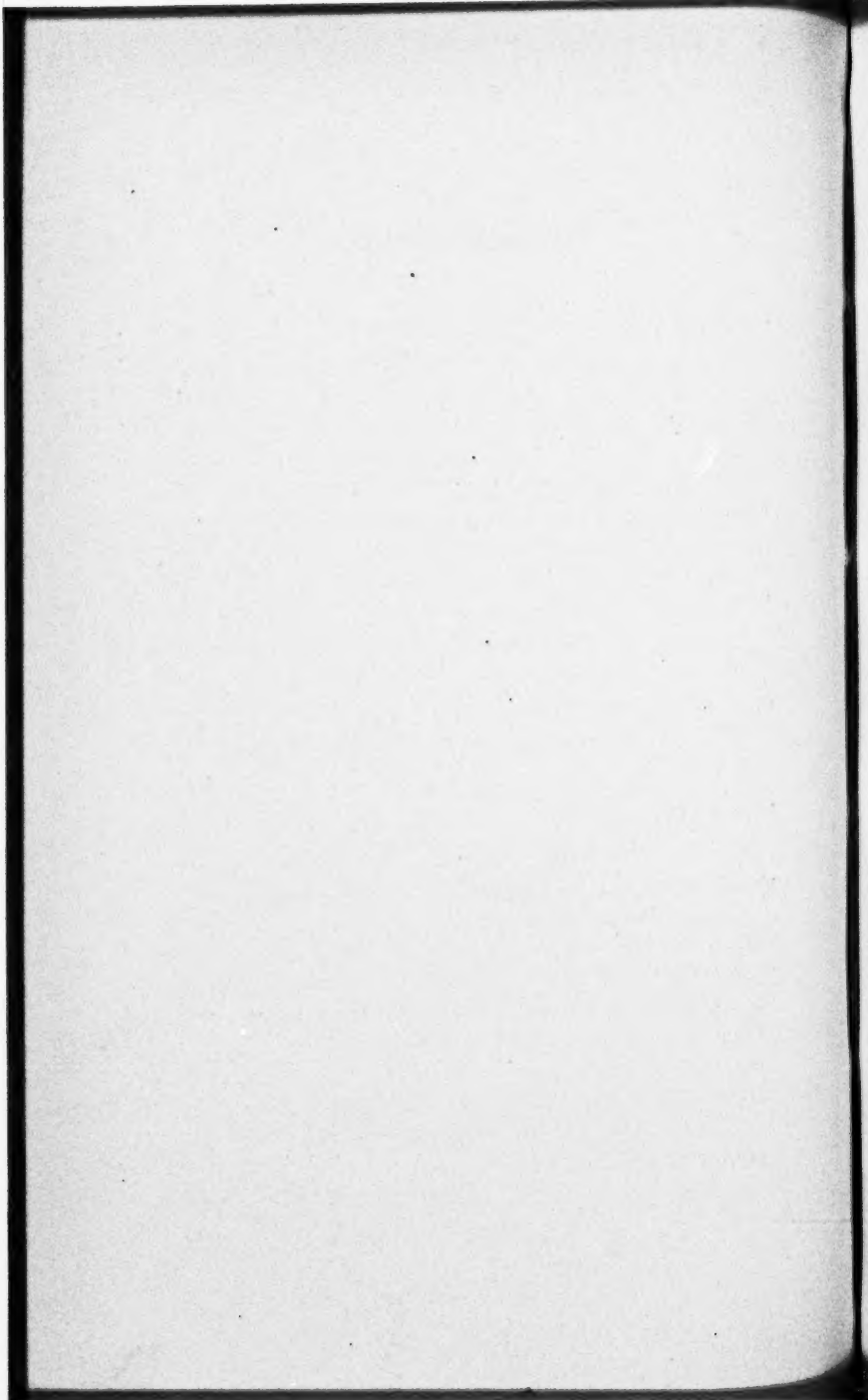
THE UNITED STATES OF AMERICA
DO hereby certify that the following is a true and correct copy of the original as the same appears in the records of the Department of the Interior.

WITNESSED my hand and the seal of the Department of the Interior at Washington, D. C., this _____ day of _____, 19____.

Assistant Secretary of the Interior

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Supreme Court of the United States

OCTOBER TERM, 1916—No 374.

JESSE ISIDOR STRAUS, PERCY S.
STRAUS and HERBERT N.
STRAUS, composing the firm
of R. H. Macy & Co.,
Petitioners,

VS.

VICTOR TALKING MACHINE
COMPANY,
Respondent.

**On Writ of Certiorari to the United
States Circuit Court of Appeals
for the Second Circuit.**

BRIEF FOR PETITIONERS.

This cause comes here by writ of certiorari to review the decree of the Circuit Court of Appeals for the Second Circuit, which reversed the decree of District Court Judge HOUGH, dismissing the amended complaint on the ground that it appears upon the face thereof that the facts therein set forth are insufficient to constitute a valid cause of action in equity (Record, p. 21).

On November 18th, 1914, the Victor Talking Machine Company, a corporation organized and existing under and by virtue of the laws of the State

of New Jersey, the respondent here, claiming to be the owner of certain patents on improvements in sound records and talking machines, and engaged in the business of manufacturing them under certain patents in the City of Camden, New Jersey, instituted a suit in equity in the District Court for the Southern District of New York against your petitioners as co-partners under the name of "R. H. Macy & Co.," and conducting a large retail department store in the City of New York, in which it sought to restrain your petitioners from selling, or offering for sale, or attempting to part with, the title and right of possession of any of plaintiff's patented talking machines and sound records in violation of a so-called "license," and its terms, conditions and limitations as set forth in notices attached to the patented instrument and sound records (Prayer for Relief, Record, p. 14).

The jurisdiction of the Court is made to depend solely upon the claim that it is a suit arising under the Patent Laws (par. 3, p. 2).

A motion to dismiss the bill, pursuant to new Equity Rule 29, was made, and that motion to dismiss, which is the equivalent of a demurrer under the old practice, was granted by District Judge AUGUSTUS N. HAND in an opinion reported in 222 Fed. Rep., 524, a copy of which is printed at page 25 of the record on appeal.

In his opinion Judge HAND held that under the decision of this Court in *Bauer v. O'Donnell*, 229 U. S., 1, the Patent Law did not, under the exclusive right secured by the statute to "vend" a patented article, grant the right "to dictate the price at which subsequent sales of the article may be made," when a sale has once taken place, and that the most striking difference between that case and the case at bar lay in the fact that in this case

compliance with the license in respect to price or royalty is made a condition precedent to the passing of a title, while in *Bauer v. O'Donnell* such compliance was made necessary to preventing the re-vesting of title by a condition subsequent; that that difference was only formal. He further held that the case of *Henry v. Dick*, 224 U. S., 1, did not apply.

An appeal was taken to the Circuit Court of Appeals for the Second Circuit, which affirmed the dismissal, Judge LACOMBE writing the opinion, 225 Fed. Rep., 535, a copy of which appears in the record at page 28.

In that opinion the Court held that the payment of the full list price enables the purchaser to assign or give away the instrument without any restrictions except as to the limited use, and that, in the absence of an allegation which specifically charges that defendant had any machine in its possession for which it did not pay the full list price, the whole theory of the complaint as to the status of a member of the public who has obtained possession of a machine from a "distributor" or "licensed dealer," without paying therefor the full list price, became academic. The affirmance was coupled with permission to amend the bill if complainant were so advised.

On August 23, 1915, the plaintiff did amend its bill, and substantially alleged that the defendants, being members of the general unlicensed public, had acquired possession of some records and machines at less than the list price stated in the label affixed to each of the machines, and were preparing and threatening to dispose of them at less than the list price stated in the label. (See Amendments, Record, p. 17.)

The motion to dismiss the amended bill was repeated on the same grounds as on the motion to dismiss the original bill, that is:

First. That it appears on the face of said amended bill of complaint that the Court has not jurisdiction of the alleged cause of action set forth therein.

Second. That it appears upon the face of the amended bill of complaint that the facts therein set forth are insufficient to constitute a valid cause of action in equity.

Third. That it appears upon the face of said amended bill of complaint that the method and system of marketing patented machines and sound records manufactured by the complainant is wholly contrary to law, and in violation of and contrary to the statutes of the United States in such case made and provided, more especially of a certain statute passed July 3, 1890, known as Chapter 647, and more particularly described as "An Act to protect trade and commerce against unlawful restraints and monopolies," and of the various acts amending, supplementing and extending the same (Record, p. 20).

That motion came on for argument before Judge HOUGH, who again dismissed the bill, but filed no opinion, although he delivered one orally. From the decree of dismissal an appeal was taken to the Circuit Court of Appeals, which, on the 10th day of January, 1916, reversed that decree in an opinion written by Circuit Judge LACOMBE and concurred in by Circuit Judges COXE and ROGERS. (Reported 230 Fed. Rep., 449; a copy appears in the record at pp. 31 *et seq.*)

The petitioners thereupon, and on or about February 28, 1916, submitted to this Court their petition for the issuance of a writ of certiorari to re-

view the decision of the Circuit Court of Appeals. That petition was granted on March 7, 1916, and this cause is before this Court for a hearing pursuant to the writ of certiorari so granted.

Points for Review.

The petitioners claim that the Circuit Court of Appeals erroneously held that the facts in this case as set forth in the bill of complaint brought it under the theory or authority of the case of *Henry v. Dick*, 224 U. S., 1, and erroneously failed and refused to apply the principle established by this Court in *Bauer v. O'Donnell*, 229 U. S., 1, in reliance upon which District Judge HAND, dismissing the original bill, and District Judge HOUGH, in dismissing the amended bill, held that WHEN A PATENTEE HAS PERMANENTLY PARTED WITH THE ENTIRE RIGHT TO USE AND HAS NO LONGER ANY INTEREST IN THE ROYALTIES FROM SUBSEQUENT SALES, AS DISCLOSED IN BOTH THE ORIGINAL AND AMENDED COMPLAINT, HE CAN NO LONGER CONTROL THE SALE EITHER OF THE PHYSICAL INSTRUMENT, OR THE RIGHT TO ITS LIMITED USE IN SUBSEQUENT TRANSFERS.

Petitioners submit that the Circuit Court of Appeals erroneously held that the license agreements did not constitute a sale outright, or a "conditional" or "restricted" sale, or any sale at all, and also erroneously held that, coupled with the right to use, the patentee had the right to control the assignment, transfer or sale of that "right to use" by virtue of the Patent Law, and that in the conditions or limitations contained in the license or other documents the complainant (respondent here) had brought itself within the principles of the case of *Henry v. Dick*, 224 U. S., 1.

Petitioners contend:

First. That the restriction as to the use of the instruments with the records and needles not having been violated need not be considered.

Second. That the complainant having received all the royalties to which it was entitled when it transferred possession of the instruments, exhausted its monopoly to "vend," and that it could not by the notice attached to the instrument limit or control the consideration to be exacted for subsequent resales transfers of the same.

Third. That, therefore, its rights under the Patent Law, in so far as the transfer or sale of the instruments is concerned, is exhausted, and that as the sole ground of jurisdiction of the District Court was alleged to be the infringement of a patent right, that Court had no jurisdiction, since there was no invasion of a patent right.

Fourth. That the "system" of marketing its goods, adopted by the complainant, would not be lawful if applied to unpatented articles, not only under the common law, but under the Sherman Anti-Trust Law and the Clayton Bill.

Fifth. That even if the right to control the subsequent resale existed under the Patent Law, the "system" of marketing the goods would be equally unlawful, as the mere fact that there is the added element of a patent right does not confer immunity upon the "system," nor save it from a like condemnation.

The Facts as Disclosed by the Complaint.

The complaint (Record, pp. 1-14) alleges that the complainant (respondent here) is the owner of certain patents on improvements in sound records and talking machines, and has since 1901 manufactured sound reproducing machines and disc records under patents in the City of Camden, N. J., where it has established a large factory and does a large business. That for the purpose of "marketing" its product it has established throughout the United States over 7,000 "specially licensed dealers" through whom it markets and delivers possession of its machines and sound records to the "ultimate user" with a limited license to use the same. The various so-called rights and reservations are described by recitals in written contracts made by the plaintiff with each dealer, and in substance repeated on a label securely attached to each machine, and stamped upon an envelope containing each record, by means of which the "ultimate user" receives actual notice of the character, limitations and restrictions upon the title and use of the machine.

In paragraph 19, page 8, a "license notice" attached to each instrument is set forth in full. It states that the machine is licensed for use only for the term of the patent having the longest term to run; it is to be used only for sound records, sound boxes and needles manufactured by plaintiff. Victor "Distributors" (the bill contains no precise definition of this term) are granted a license to use the machine for *demonstrating* purposes only, with the right to the "Distributor" to *assign* a like right to regularly "licensed Victor Dealers" (the complaint contains no precise definition of this

term) at the dealer's "regular discount royalty," and with the right to the dealer to *convey the license* to the public to use the machine only when a royalty of not less than \$200 shall have been paid. The "Distributor" has a like right to convey to the public the right to use the machine under the same conditions. *No license to use the machine is granted to the public until the full royalty shall have been paid.* The title is to remain in the Victor Talking Machine Company, and the right of repossession on breach of any of the conditions upon repayment of the royalty paid by the user, less 5 per cent. per annum of the full royalty for each year that it shall have been used. Any excess use, or violation of the condition, is claimed to be an infringement of the patents. The machine is licensed for use only with needles supplied by the Victor Company, and needles will be supplied direct to any licensee of any of its patent machines at wholesale prices. License is declared to be good only so long as the label remains on the machine; any erasure, alteration or removal of the label, or of any of the company's labels or marks, will be construed as a violation of the license. The machine at the expiration of the patent having the longest term to run under which it is licensed *shall become the property of the licensee*, provided he shall have faithfully performed the conditions of the license.

The records had an almost identical "license notice" printed on the envelopes containing them (par. 20).

About the 1st day of August, 1913, plaintiff adopted, and since then has employed, a written license contract with its "licensed dealers" whereby each such licensed dealer was authorized on receipt of a patented machine, or sound record, either

from the plaintiff or a "paramount distributing dealer," to dispose of the same, *with the license to use it, on certain terms and conditions* (fol. 18, p. 11).

At pages 11 and 12 of the record that agreement is in *part only set forth*, periods marking the places where *portions are omitted*.

The so-called license agreements and licenses divide the community apparently into three separate classes, with different rights and powers—*first*, the distributor who is permitted to *use* the instruments and records only for demonstrating purposes. He also is given the right to *assign* a like right to a "licensed dealer" at the dealer's regular royalty, and to give to the dealer the right to convey to the public the license to use when the full list price shall have been paid.

The distributor apparently acquires the goods from the Victor Talking Machine Company and can dispose of them *only* to the licensed dealer and to no one else, except at the full list price.

Second. The licensed dealer is permitted to *use* the instruments only for demonstrating purposes and is empowered to *assign the right to use* to the public on receiving the *full list royalty or license fee* as per the current schedule as issued by the Victor Company, a copy of which accompanies the agreement (*but which is omitted from the record*, p. 12, fol. 19). The public, that is, those who are neither distributors nor licensed dealers, acquire only the right to use the machines, but *has no right to assign or transfer that use under any circumstances* until the expiration of the youngest patent, when, without any further payment of any kind, the absolute ownership in the instrument and the record vests in the licensee.

The complaint further charges that all instruments and records manufactured since August 1, 1913, have been marketed under this system, and that the petitioners had full knowledge of the terms and conditions of such license.

A large public demand for said machines and records has been created to the benefit both of the public and of the patentee. In paragraph 24, page 13, it is alleged that the defendants (the petitioners here) have acquired, and have in their possession, large numbers of said instruments and records, and have, in violation of the limited license to use, offered the same for sale and have sold to the public in some cases at less than they paid for the same to the licensed distributors.

The prayer for judgment, in addition to a general prayer for injunctive relief against violation of plaintiff's Letters Patent and for an accounting of the profits, prays for a decree (p. 22)

"restraining said defendants from selling, or offering for sale, or attempting to part with, the title and right of possession of any of plaintiff's said patented machines and sound records which said defendants obtained from any of plaintiff's 'licensed distributing dealers' in violation of the license and its terms, conditions and limitations contained and set forth in the label notices attached to each of said patented machines and sound records respectively."

The Circuit Court of Appeals affirmed the decree dismissing the complaint. Judge LACOMBE, in his opinion, stated that the complaint disclosed that the defendants were neither "distributors" nor one of the 7,000 licensed "dealers" referred to therein; that being, therefore, a member of "the public," if they had paid the full list price, they could not be

enjoined, assuming all complainant's contentions as to the effect of the documents to be correct, from parting with possession to anyone. They might give it away, or assign it on whatever conditions they pleased; that as the complaint contained no allegation specifically charging that defendant had any machines in its possession for which it did not pay the full list price, the whole theory of the complaint as to the status of a member of the public who had obtained possession of a machine without paying the full list price became academic. The Circuit Court of Appeals directed the entry of an order permitting an amendment to the complaint. Pursuant to the suggestions of the appellate court, the complainant filed amendments (pp. 17 and 19 in the Record) in which it was charged that the petitioners (defendants below), being members of the general *unlicensed* public, and having no contractual relation with plaintiff, nor with any of its licensed distributors or licensed dealers, procured from distributors or dealers at much less than the licensed price stated in the label a large number of machines with "full knowledge that no title to the said machines or records or license to use the same could be or was acquired by said defendants."

It is further charged that they have, "in wilful violation of the limited licenses to use only under which they, said defendants, obtained possession of said machines and records and of the qualified title thereto so obtained, offered the same for sale, and have sold large numbers thereof to the public (and are proposing and threatening to dispose of the remainder thereof at less than the list price stated in the labeled license aforesaid), and in some cases at less than the defendants paid for the same to the aforesaid licensed distributors."

ARGUMENT.

The system "of marketing respondent's goods, examined and explained."

The complicated language deliberately adopted by the respondent has apparently caused the true relations of the "distributors" and "licensed dealers," as well as of the "public" to the respondents, to be clouded and confused. On the first appeal Judge LACOMBE says:

"Whether the various documents evidence a lease of each machine for a stated period, with a privilege to the lessee at the end of such period to take full title, provided he has complied with the conditions of the lease—as to use solely of complainant's needles, records, etc., or whether it be a conditional sale, need not be decided" (Record, p. 29).

He says further:

"We are not satisfied that there is any obligation on the part of any one member of the public who thus assigns *his lease or whatever it may be*, to any other member of the public, to exact any particular sum from the latter as a consideration of the transfer."

On the second appeal he says (p. 33):

"A study of these various documents leads to the conclusion that complainant has undertaken to avoid making such a sale of its machine as would permanently pass it beyond any further control by itself. We think it has succeeded in so doing. This is not a sale outright or a conditional or restricted sale, or any sale at all."

He fails in his opinion to give any name to the transactions, but comes to the conclusion that the agreements, whatever they may be, give a right to *use* only, and that a patentee may dispose temporarily of the use, and ultimately of the title of a machine made by him, in the manner set forth in these agreements, and find protection under the Patent Law.

This confusion as to the character and legal relation of the parties is, in part, based upon the obvious intent of the framers of the license agreement to apply the language used in various decisions of this Court to a state of facts differing both in character and intent from the facts before the Court when it used that language. In great measure, however, it is promoted by the refusal of the respondent to *disclose to the Court the complete agreement* with its distributors and licensed dealers. A partial result of this is found in Judge LACOMBE's assumption, which is not based upon any allegations in the complaint (and which is quite contrary to the fact) that "distributors are paid by the Victor Talking Machine Company" (fol. 56, p. 34). Whatever confusion may exist as to the precise character and meaning of the contracts, their intent is perfectly plain. Both the District Court and the Circuit Court of Appeals are in accord upon this point.

Judge HAND, in his opinion, says:

"The real purpose of the licensee is obviously to maintain the market for the talking machines, sound records at the prescribed royalty, and the essential point involved is whether such limitation of the use in the mode I have described is within the rights of the owner of the patents."

Judge LACOMBE says on the second appeal:

"This case presents the familiar one of the manufacturer of a patented article undertaking to extend its use and at the same time regulate the terms and conditions under which it shall be used."

As there was no contest as to the *conditions* of use, the terms upon which the use can be acquired were the sole subject for adjudication.

The District Court in both instances that the case was before it held that the *Sanatogen* case (*Bauer v. O'Donnell* [1913], 229 U. S., 1) applied, and that a patentee had no right to control under the Patent Law the resale of the instrument itself, or the resale of the right to use that instrument, and that the case at bar was clearly a sale of the instrument or a sale of the use of the instrument. The Circuit Court of Appeals held that there was no sale of any kind, conditional or restricted; that a mere license to use upon certain terms as to price was granted, and that the principles of the *Mimeograph* case (*Dick v. Henry* [1912], 224 U. S., 1) established that right as legitimate.

Petitioners contend that an examination of the complaint discloses the intention to make a *sale* by the company to wholesale dealers or jobbers, called "distributors," with an agreement to *resell* only to retail dealers *specially licensed* by the respondent, and that the agreement with the distributors provided that the retail dealers would sell only at retail and at a fixed price. That the respondent received its full purchase price from the distributors, who in turn sold at a fixed price to the retailers.

That no contract of agency existed, and that the title passed lawfully to any person who made the initial payments therefor, with a lawful right to

transfer that title and the possession of the instrument free from any price restriction dictated by the respondent. Although the sale might be qualified by the restrictions as to *use*, yet the possession of the purchaser, whether from the distributor or licensed dealer, is altogether lawful and is subject to sale, assignment or disposition in precisely the same way as any other article of commerce owned by him.

It appears from the complaint that though the Victor Talking Machine Company has been in existence since 1901, it did not adopt the present system of marketing its goods until August 1, 1913, several months after the decision of the *Sanatogen* case (*Bauer v. O'Donnell*), in which case a brief was filed in its behalf, *amicus curia*.

The complaint is silent upon the methods employed previous to that day, but in the reported cases in which the Victor Talking Machine Company was a party its agreements are disclosed (see *Victor Talking Machine Co. v. Fair*, 123 Fed., 424) and show that theretofore a similar system to the one adopted was in use, except that there was a sale, with restrictions as to use and as to resale. Respondent evidently considered its previous method condemned by the *Sanatogen* case, but being desirous of securing to itself for the future the benefits of its past practices it adopted the present system, which merely uses the terms and phrases of the *Sanatogen* decision as a cloak for the continuance of its former methods.

Throughout the so-called "license" and "license agreement" the term "sale" cannot be found, and yet it is clear that there is a sale of the instrument itself, or at least a sale of the right to use the instrument. The Victor Company first parts with its possession of the instruments and records to the

distributor who pays for the goods delivered to him, and no further or additional payment is required by him. He is, in fact, the wholesale dealer. According to the terms of his agreement, he has the right to deliver possession of the instruments, and to assign the right to use, to the "licensed dealer" for a consideration. Both the distributor and the licensed dealer are clothed with all the *indicia* of ownership. Their possession of the physical instrument cannot be disturbed by anybody, except upon repayment of the sums paid by them, less a certain small percentage for each year's use. They have paid for it the full purchase price exacted. They are vested with title as well as possession upon the expiration of the youngest patent. The licensed dealers do not purchase from the complainant, but from the distributors, and pay them a fixed price. Their sole contractual relation with the respondent, if any exist at all, must be found in the so-called license attached to each instrument. The complainant has no further interest in the purchase price that the retailer is bound to pay, or that he is to receive from the public. The retailer is required to sell to the public, or, as it is called, the "ultimate user," at the list price. No portion of that list price goes to the respondent, nor is any further payment due for any further use.

It is true that, in addition to the "royalty," the use of the patented machine is limited to the patented records and the needles supplied by the complainant. This restriction, however, in no way affects the title to the machine or the record, but merely its use. If the purchaser of the machine desires to purchase additional records from time to time, he may do so at his pleasure, BUT HE IS NOT BOUND TO DO SO. It is not necessary, as in the *Mimeograph* case (*Henry v. Dick*, 224 U. S., 1), for

the proper use and operation of the machine, that there should be a constantly new supply of records to be furnished by the complainant.

The right to compel the use of the machine with the records and needles is a question of no importance in this case, as THERE IS NOT THE SLIGHTEST ATTEMPT TO CHARGE THAT THAT PARTICULAR FEATURE OF THE "LICENSE AGREEMENT" WAS VIOLATED BY THE PETITIONERS, NOR IS THERE ANY QUESTION AS TO MUTILATION OF LICENSE PLATES. There is no intimation that these petitioners did not pay the full "royalty" *demanded of them*. The complainant claims the right, by virtue of the Patent Law, to restrain the petitioners from any transfer of the instruments and records so acquired solely because the petitioners *have not been designated as "licensed dealers"* and, therefore, have no right to deal in or to part with the possession and the use of the machines so acquired.

Whatever terms complainant may choose to apply to the transaction, it is clearly nothing but a series of sales either of the physical instruments or of the right to use them: (1) to the wholesale "distributor"; (2) by the wholesale "distributor" to the "dealer," and by the "dealer" to the "ultimate consumer," that is, at retail to the public, subject to whatever restrictions are permitted under the decision of this Court in the *Dick* case.

POINT I.

The Circuit Court of Appeals erred in its interpretation of the meaning, effect and legality of the agreements in question.

The Circuit Court of Appeals held that though there was a transfer of possession by the complainant to the "distributors" and "licensed" dealers (through whom petitioners acquired whatever rights they have), and though they apparently were clothed with all the *indicia* of ownership, there was no *sale*, conditional or otherwise, and that by reason of the principles announced in the *Dick* case, the complainant could control the use and the price at which the use could be transferred. In its decision on the first appeal it had held that a purchaser, who paid all that was demanded of him, that is, the full *list* price, received from the dealer such an interest in the instruments and records as would permit his transferring its possession and its use, at whatever price he chose, and to whomever he selected, despite the prohibition in the license agreement. On the second appeal the Court held, in substance, that the "licensed" distributor and the "licensed" dealer who had paid to the complainant all that was asked of them did *not* have the power to so transfer the instruments or records or to permit their use.

It is practically conceded that if there were a *sale* of the physical instrument, the right to control its subsequent resale is denied by the *Sanatogen* decision.

The Circuit Court of Appeals, to sustain its conclusions, was, therefore, bound to hold that the documents contained in the bill of complaint constituted neither a sale, nor a conditional sale.

The complainant in the Court below, though conceding that in case of a sale there could be no subsequent control of the resale price, contended that the documents created a *conditional sale* with a *limited license to use*, and in its argument and briefs insisted that the distinction between the *Sanatogen* case and the case at bar lay in the fact that in that case there was *an unconditional sale* of the article in question, while in this case there was "a qualified or conditional sale" with a "limited license to use." And if there were a conditional sale, the petitioners contend that the *Sanatogen* case is controlling. The mere fact that a condition, whether precedent or subsequent, is attached would not change the rule laid down in that case.

Furthermore, while petitioners insist that the agreements amounted to a sale, yet, assuming that there was no sale in the ordinary acceptation of the term, they contend that the right to transfer the "license to use" can be and is made the subject of a sale, and that the resale price of that "license to use" cannot be controlled under the Patent Law any more than the resale price in the case of a sale of the patented article which passes the title conditionally or otherwise.

It must be borne in mind that THERE IS NO CHARGE OF ANY INFRINGEMENT OF THE USE OF THE INSTRUMENTS WITH OTHER THAN THE RECORDS AND NEEDLES STIPULATED IN THE LICENSE.

The facts in the *Sanatogen* case are very similar to the facts in this case. In the present case the first limitation of the "license," i. e., "*no license to use this machine (or record) is granted to the public until the full royalty shall have been paid,*" is the basis of the complainant's claim of a condition

precedent to the passing of the title and the right of possession and use.

In the *Sanatogen* case the notice was as follows:

"This size package of Sanatogen is licensed by us for SALE and USE at a price not less than One Dollar. Any sale in violation of this condition or use when so sold will constitute an infringement of our patent No. 601,995, under which Sanatogen is manufactured, and all persons so selling or using packages or contents will be liable to injunction and damages. A purchase is an acceptance of this condition. All rights revert to the undersigned in event of a violation."

It will be noticed that *the use* of the article is restricted in this notice in the same manner as in the case at bar, that is, the article was to be *used only* if \$1 was paid for it, as in this case the public was only to use the talking machine in case it paid the \$200 royalty. Concerning this phraseology, Judge DAY says:

"But in view of the fact certified in this case as to what took place concerning the article in question, *it is a perversion of terms to call the transaction in any sense a license to use the invention*. The jobber from whom the appellant purchased had previously bought at a price which must be deemed satisfactory, the packages of Sanatogen afterwards sold to the appellee. The patentee had no interest in the proceeds of the subsequent sales, no right to any royalty thereon or participation in the profits thereof. The packages were sold with as full and complete title as any article could have when sold to the open market, *excepting only the attempt to limit the sale or use when sold for not less than \$1*; in other words, the title transferred was full and

complete, with an attempt to reserve the right to fix the price at which subsequent sales could be made. There is no showing of a qualified sale for less than value for limited use with other articles only, as was shown in the *Dick* case. There was no transfer of a limited right to use the invention, and, *to call the sale a license to use, is a mere play on words.*" (Italics are ours.)

Eliminating all other provisions of the so-called license attached to the complainant's instrument than the one controlling the amount to be paid by the "ultimate purchaser," the only distinction that can be made between the two notices is that the complainants have omitted the word "sale" which appears in the *Sanatogen* notice. In each the right to use the article is licensed only in case a fixed price be paid. In other words, when an article, whose sole value is in its use, is *licensed* to be transferred at retail only when the purchaser pays a fixed price, the patentee having received all the cash royalty that he is entitled to, it is a mere play upon words to give the transaction the name of a "license to use," whereby the patentee can control the subsequent resale. It is really a sale and the patentee's monopoly of vending is thereby exhausted. He has not thereby reserved to himself any field of the monopoly which is invaded by a breach of the license notice.

The patentee may license the sale of his article in a certain locality and the sale in any other locality will be an infringement of his exclusive right to sell in the other localities for which licenses were not granted, but he cannot sell the article, and by virtue of the Patent Law reserve the right to himself to dictate the price at which the article shall be *resold* by the purchaser. No

field of monopoly reserved to him is invaded by such a resale. No matter how many articles are resold at less than the fixed price, the patentee has been paid all the royalty that he has demanded, and if the resale price be less than the royalty he has received, he does not bear the loss, and if the resale price be in excess of the royalty paid, he does not share in that excess. He has exhausted his monopoly of sale for that particular article when he receives the full price that he has exacted. If on the sale he makes conditions or agreements with the purchaser as to a resale, either as to price or method, his rights in case of a breach must be determined by the law which governs the sale of all chattels. This is the precise proposition that was first announced by the United States Supreme Court in passing upon the monopoly of sale under the copyright law in *Bobbs Merrill v. Straus*, and *Scribner v. Straus*, 210 U. S., page 339, in 1908, and was subsequently applied as to patents in the *Sanatogen* case.

As was pointed out by District Judge HOLLISTER in

Ford Motor Co. v. Union Motor Sales Co.,
225 Federal Rep., 373,

where a claim somewhat similar to the claim at bar was made, there is a difference between an agreement conveying the exclusive right given by the Patent Law to sell the patented article and a sale by the patentee of the article itself. In the one case the patentee grants the right to sell, as, for instance, where he manufactures, but does not himself market the goods, but grants to another the exclusive right so to do. In the other he, himself, sells. If he grants to another the right to

sell, then he has parted with the exclusive right he had under the Patent Laws. He could make such a grant for a lump sum, or take his pay on a fixed royalty basis, and under the decision in the *Bement* case, 186 U. S., 70, he might fix the price at which his licensee could sell. Having the exclusive right to sell, the consideration that he receives for parting with that exclusive right is a matter of ordinary contract. If his licensee fails to pay the whole or any portion of the purchase price of the license, the remedy of the patentee is not under the Patent Law, but by an action on the contract.

If a patentee sells the article *himself*, he does not part with any exclusive right under the Patent Law, except in so far as *the sale of that particular chattel carries with it the right to use it*, unless that right be qualified by an express reservation.

Judge HOLLISTER in the *Ford Motor Co.* case (*supra*), in considering the facts in the case before him, which, as in the case at bar, was an attempt to create "licensed dealers" and "conditional sales," or "restricted sales" with reservations of title, further says:

"This contract does not give the vendee the right to sell. It sells to him the article, *and attempts to give him the right to resell*. He buys. The manufacturer-patentee sells the product to him, and then seeks to control the price at which he shall resell. If, upon payment by the dealer of the purchase price, the title of the machine passes to him, how can it be taken away because the user, to whom the dealer has sold, has paid a less price than the list price?" (Citing opinion of Judge RAY in *Waltham Watch Co. v. Keene*, 202 Fed., 225, 234 *et seq.*)

The Court further says in that case:

"If the patentee's exclusive right to sell is exhausted by a sale, the Supreme Court say he cannot, by a mere notice attached to the patented article, though brought home to the purchaser, add to or extend his right by fixing the price at which his vendee shall sell the same article. It must, therefore, be true that if the patentee had, by a sale of the article and the receipt of his price for it, passed the title to another, he cannot enlarge or extend that right by contract, nor in any other way, for he has parted with what he had. And when he seeks to fix the price at which his vendee shall sell, he brings into operation other laws and policies which conflict with such attempt: rules against restraints on alienation; the common law against restraint of trade and monopolies, and the Sherman Anti-Trust Law against contracts, conspiracies and combinations to restrain trade, and to monopolize or attempt to monopolize the same."

In the *Dick* case (*Henry v. Dick*, 224 U. S., 1), this Court decided that the property right in the mimeograph machine had passed from the patentee, but that it was a sale qualified by *restrictions as to use*.

In that case the licensee's lawful possession and title to the instrument itself was never questioned. On the contrary, the whole argument of Judge LUTON is directed to establishing the principle that lawful possession may be so restricted as not to carry with it an unlimited right "to use" under the Patent Law. He says:

"The contention is not that a patentee may not permit the use of a patented thing with such qualifications as he sees fit to impose, and that a prohibited use will be an

infringing one, but that he can only keep the article within the control of the patent by retaining the title. To put the contention in another form—it is, that any transfer of the patentee's property right in a patented machine carries with it the right to use the entire invention so long as the identity of the machine is preserved, irrespective of any restrictions placed by the patentee upon the use of the article and accepted by the buyer. It is said that by such a sale the patentee 'disposes of all his rights under his patent, and thereby removes the article from the operation of the patent law.' If he attempts to sell the machine for specified uses only and prohibit all others, the restriction is disposed of as constituting a collateral agreement such as any vendor of personal property might impose and enforceable, if valid at all, only as a collateral contract.

The issue is a plain one. If it be sound, it concludes the case, and our response should be a negative one, since the violation of a mere collateral contract, which is not also an infringement of the patent, would not be a case arising under the patent law. But is it true that where a patentee sell his patented machine for a specific and limited use, he does not thereby reserve to himself, as patentee, the exclusive right to all unpermitted uses which may be made of his invention as embodied in the machine sold? Obviously, this is a question arising under the patent law. By a sale of a patented article subject to no conditions the purchaser undeniably acquires the right to use the article for all the purposes of the patent so long as it endures. He may use it where, when and how he pleases, and may dispose of the same unlimited right to another. This has long been the settled doctrine of this and all patent courts. *Mitchell v. Hawley*, 16 Wall., 544; *Livingston v. Woodworth*, 14 How.,

546, 550; *Adams v. Burke*, 17 Wall., 453, 456; *Folding Bed Cases*, 157 U. S., 659, 666. By such an unconditional sale of the thing patented, it is said to be 'no longer within the limits of the monopoly. It passes outside of it and is no longer under the protection of the act of Congress.' "

After discussing the cases which permit the separation of possession from the use, he further says:

"The argument for the defendants ignores the distinction between the property right in the materials composing a patented machine, and the right to use for the purpose and in the manner pointed out by the patent. The latter may be, and often is, the greater element of value, and the buyer may desire it only to apply to some or all of the uses included in the invention. But the two things are separable rights. If sold unreservedly the right to the entire use of the invention passes, because that is the implied intent; but this right to use is nothing more nor less than an unrestricted license presumed from an unconditional sale."

There was not the slightest doubt that the terms "conditional sale" and "qualified sale" used by the Court in the *Dick* case had no reference whatsoever to the title or possession of the physical thing itself. An absolute and complete title to the materials of that machine had been passed with the condition limiting its *use* only and not the *title*, and in that sense only was it a "qualified sale" or a "conditional sale," and in that sense only were those terms used in that decision, and in the *Sanatogen* decision, and not a condition or qualification of the *title*.

In the sense that the "conditional sale" or "qualified sale" is a condition upon, or qualification of,

the use of the instrument, petitioners do not quarrel with those terms as used, either in the license agreement or in the argument below.

In the sense, however, that they affect the title or right of possession to the instruments in question, petitioners do not acquiesce. It is perfectly clear that when the respondent attempted to revise its contracts so as to make them conform to the law as interpreted in the *Sanatogen* case, they mistook phraseology for substance; they interpreted the terms "conditional," "unconditional" or "qualified" sales as conditions or qualifications upon TITLE and not, as is clearly the case, upon USE.

A "conditional sale" affecting the title is as much the exercise of the exclusive right to vend as an "unconditional sale" so far as the breaches of the conditions are concerned. If Victor machines are sold upon the instalment plan, with the reservation of title until the last instalment is paid, the failure to pay an instalment entitles the vendor to resume possession and title, or to sue for the instalment, but gives him no remedy under the Patent Law. The failure to pay an instalment when due invades no reserved field of monopoly of sale any more than the failure to pay a license royalty when due invades any field of the reserved monopoly.

Excelsior Wooden Pipe Co. v. Pacific Bridge Co. (1902), 185 U. S., 282.

Wilson v. Sandford (1850), 10 How., 99.

Hartshorn v. Day (1856), 19 How., 221.

Albright v. Teas (1883), 106 U. S., 613.

Dale Tile Co. v. Hyatt (1888), 125 U. S., 46.

Keeler v. Standard Folding Bed Co. (1895), 157 U. S., 659.

Mitchell v. Hawley (1873), 83 U. S., 547.
Adams v. Burke (1873), 84 U. S., 453.
Wilson v. Rousseau (1846), 45 U. S., 688.
Bloomer v. McQueenan (1852), 14 How.,
 539.

In *Dale Tile Manufacturing Co. v. Hyatt* (*supra*), the plaintiff sued in a state court for royalties due under a license contract for a patented article. The defendant contended that the state court had no jurisdiction because the case was one arising under the Patent Law. That contention was held untenable. Judge GRAY, writing the opinion of the Court, says in part:

"It has been decided that a bill in equity in the Circuit Court of the United States by the owner of letters patent, to enforce a contract for the use of the patent right, or to set aside such a contract because the defendant has not complied with its terms, is not within the Acts of Congress, by which an appeal to this Court is allowable in cases arising under the patent laws, without regard to the value of the matter in controversy. Act of July 4, 1836, chap. 357, Sec. 17, 5 Stat. at L. 124; Rev. Stat., Sec. 699; *Wilson v. Sandford*, 51 U. S., 99; *Brown v. Shannon*, 61 U. S., 55.

Following those decisions, it was directly adjudged in *Hartell v. Tilghman*, 99 U. S., 547, that a bill in equity by a patentee, alleging that the defendants had broken a contract by which they had agreed to pay him a certain royalty for the use of his invention and to take a license from him, and thereupon he forbade them to use it, and they disregarded the prohibition and he filed this bill charging them as infringers, and praying for an injunction, an account of profits, and damages, was not a case arising under the patent laws, and, therefore, the parties

being citizens of the same State not within the jurisdiction of the Circuit Court of the United States. And the judges who dissented from that conclusion admitted it to be perfectly well settled 'that where a suit is brought on a contract of which a patent is the subject-matter, either to enforce such contract, or to annul it, the case arises on the contract, or out of the contract, and not under the patent laws.' 99 U. S., 558.

In the still later case of *Albright v. Teas*, 106 U. S., 613, a patentee filed a bill in equity in a State Court, setting up a contract by which he agreed to assign his patent to the defendants and they agreed to pay him certain royalties, and alleging that the defendants had refused to account for or pay such royalties to him, and had fraudulently excluded him from inspecting their books of account. The defendants answered that the plaintiff had been paid all the royalties to which he was entitled, and that, if he claimed more, it was because he insisted that goods made under another patent were an infringement of his. The Court held that it was not a case arising under the Constitution or laws of the United States, removable as such into the Circuit Court under the Act of March 3, 1875, Chap. 137, Sec. 2, 18 Stat. at L., 470.

It was said by Chief Justice TANEY in *Wilson v. Sandford*, and repeated by the Court in *Hartell v. Tilghman*, and in *Albright v. Teas*: 'The dispute in this case does not arise under any act of Congress, nor does the decision depend upon the construction of any law in relation to patents. It arises out of the contract stated in the bill; and there is no Act of Congress providing for or regulating contracts of this kind. The rights of the parties depend altogether upon common law and equity principles.' 10 How., 101, 102; 99 U. S., 552; 106 U. S., 619. * * *

The decision was based upon the contract between the parties; and the Court did not decide, nor was it necessary for the determination of the case that it should decide, any question depending on the construction or effect of the Patent Laws of the United States."

In *Keeler v. Standard Folding Bed Co. (supra)*, Judge SHIRAS quotes with approval from *Mitchell v. Hawley (supra)* and *Adams v. Burke (supra)*, and after reviewing a number of decided cases says:

"Upon the doctrine of these cases, we think it follows that one who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place. WHETHER A PATENTEE MAY PROTECT HIMSELF AND HIS ASSIGNEES BY SPECIAL CONTRACTS BROUGHT HOME TO THE PURCHASERS IS NOT A QUESTION BEFORE US, AND UPON WHICH WE EXPRESS NO OPINION. IT IS, HOWEVER, OBVIOUS THAT SUCH A QUESTION WOULD ARISE AS A QUESTION OF CONTRACT, AND NOT AS ONE UNDER THE INHERENT MEANING AND EFFECT OF THE PATENT LAWS."

The case of *Excelsior Wooden Pipe Co. v. Pacific Bridge Co. (supra)* involved the interpretation of a license to manufacture and sell wooden pipes under certain Letters Patent. The covenants of the licensee were: (1) To pay a license fee or royalty; (2) not to transfer or assign the license without the consent of the patentee; (3) that the license might be revoked for failure to manufacture. The Court, in the course of its opinion, said:

"Now, it may be freely conceded that if the LICENSEE had failed to observe any one of the three conditions of the license, the LICENSOR would have been obliged to resort to the state

courts either to recover the royalties or to procure a revocation of the license. Such suit would not involve any question under the patent law."

The Court, after reciting the facts in the case of *Pratt v. Paris Gaslight & Coke Co.*, 168 U. S., 255, said (pp. 286, 287):

"It was held that the action was not one arising under the patent laws of the United States, and that to constitute such a cause the plaintiff must set up some right, title or interest under the patent laws, or at least make it appear that some right or privilege will be defeated by one construction or sustained by the opposite construction of those laws. That 'sec. 711 (U. S. Comp. Stat. 1901, p. 577) does not deprive the state courts of the power to determine QUESTIONS arising under the patent laws, but only of assuming jurisdiction of CASES arising under those laws. There is a complete distinction between a case and a question arising under the patent laws. The former arises when the plaintiff in his opening pleadings—be it a bill, complaint or declaration—sets up a right under the patent laws as ground for a recovery. Of such the state courts have no jurisdiction. The latter may appear in the plea or answer or in the testimony. The determination of such question is not beyond the competency of the state tribunals.'"

In the case at bar, the relief prayed for is to prevent and enjoin the petitioners from assigning the license to use at less than the list price, and from acquiring the license to use at less than the list price. Under the *Excelsior Bridge* case, no patent right is invaded by the petitioners if they acquire or dispose of the license to use contrary to the license notice attached to each instrument and

record. Whatever rights may have been reserved to the patentee when granting a license for a limited right of "user," no such rights are reserved to him on an *assignment* of the right of user.

In the *Mimeograph* case (*Dick v. Henry*), Judge LURTON not only recognizes, but emphasizes, this distinction. In passing upon the theory of the *Pacific Bridge Co.* case, he says:

"But the three conditions of the license there referred to were: First, to pay royalties; second, that the transferee would not transfer or assign the license without consent of the licensor; third, that the failure to use the license in the manufacture of pipe should operate to revoke it. IT IS EVIDENT THAT THE LICENSEE WOULD NOT HAVE INFRINGED THE PATENT BY EITHER FAILING TO PAY ROYALTIES, BY ASSIGNING THE LICENSE, OR BY NEGLECTING TO USE HIS PRIVILEGE. *The licensor would clearly have been compelled to rely wholly upon his contract, as such, in any suit for the violation of any of the conditions named.*" (Italics are ours.)

In the *Sanatogen* case this is clearly pointed out.

In that case, as in this, the article was licensed for use by the public if it paid a price not less than \$1, and this Court said:

"To call the sale 'a license to use' is a mere play upon words,"

and in interpreting the terms "to vend" and "vending" used in the copyright and patent statutes, it defines a sale:

"So far as the use of the terms 'vend' and 'vending' is concerned, the protection intended to be secured is substantially identical. The sale of a patented article is not

essentially different from the sale of a book. In each case TO VEND IS TO PART WITH THE THING FOR A CONSIDERATION."

This is equally applicable to the case at bar, but was ignored by the Circuit Court of Appeals.

The system of marketing complainant's goods is obviously an effort to disguise the wholesale dealer under the mask of a "distributor," and the retail dealer under the mask of a "licensed dealer."

When the "distributor" or "licensed dealer," who concededly was in lawful possession under a "conditional sale," paid to the complainant the full royalty which he exacted and to which he was entitled, it clearly was a *sale* and the particular instruments purchased passed out of the exclusive right to "vend" granted by the Patent Law, and any subsequent transfer of the *title* to, or *possession* of the instruments cannot be restrained under the Patent Law. And whether or not any agreement was broken, the title and possession lawfully in them is equally lawful in these defendants to whom their title and possession was transferred and who can retransfer the same at will without infringing any patent right.

The "list price" is not the price which the patentee expects to receive. The complainant receives no portion thereof. That is not the price which emancipates the article from the patent control; the "list price" is the price which the *dealer* is expected to receive from the public, and which reimburses him for the royalty already paid to the complainant. The payment of that royalty and not of the "list price" emancipates the article from the patent monopoly and enables the dealer to sell a lawful title and transfer a lawful possession without regard, as decided in the *Sanatogen* case, to the

restriction attempted to be placed upon the resale price, but with the obligation, nevertheless, to observe the restricted use of the instrument with the records, or with the needles, as decided in the *Dick* case. If there be any conflict between the *Sanatogen* and the *Dick* cases, it is in the reasoning as to the rights and powers of a patentee in the entirely separate fields of use and sale.

In the case at bar, the theory of both cases can be applied without any conflict. In so far as the license agreement restricts the use of the instruments with the records and needles, the *Dick* case applies; in so far as the license agreement attempts to control the resale price of the instrument, the *Sanatogen* case applies. Neither under the *Sanatogen* case, nor under the *Dick* case, can there be found a single expression which would impair the lawful title and right of possession of the instruments which defendants have received from distributors which could be assailed under the provisions of the Patent Law.

POINT II.

The complainant's system of marketing its goods is wholly contrary to the statute law against monopolies.

The complainant's whole output is marketed under a system which is intended to and will, if sustained, completely prevent competition, both in the supply and the price of its product, between the "distributor," or the wholesale dealers, in the wholesale price, the "licensed dealer," or the retailers, in the retail price, and even control the subsequent transfer of the article by the "ultimate

purchaser," so that he cannot sell, assign or transfer the same. Although the complainant has received every penny that it is entitled to, the system, if legal, would enable it to hold a rigid control over all subsequent dealings in the instruments which have passed from its possession into the lawful possession of others, whose possession, according to the terms of the contract itself, can be disturbed only in case complainant returns the "royalty," or purchase price paid, less a discount for each year's use.

The system further permits, if sustained, the complainant, which concededly may select its own customers, to refuse capriciously to "license" a retail dealer, and in consequence debar him from *any* dealings in the instruments or records with any distributor who has lawfully acquired possession from complainant.

Such a system applied to the ordinary articles of commerce would be and has been declared to be unlawful and in contravention of the common law as in restraint of trade, and against the anti-trust laws as both in restraint of trade and fostering monopoly.

John D. Park & Sons v. Hartman (1907),
153 Fed. Reporter, 24.

Dr. Miles Medical Co. v. John D. Park & Sons (1911), 220 U. S., 373.

Montague & Co. v. Lowry (1904), 193
U. S., 38.

American Tobacco Co. v. U. S. (1910), 221
U. S., 180.

The fact that the instruments and records are produced under patents does not save the system from illegality.

Standard Sanitary Mfg. Co. v. U. S.
(1912), 226 U. S., 49.

Straus v. American Publishers' Association (1913), 231 U. S., 222.

*United States v. Kellogg Toasted Corn
Flake Co.* (1915), 222 Federal Reporter,
725.

In *John D. Park & Sons v. Hartman* (*supra*) Judge LURTON, then sitting at the Circuit Court of Appeals, passed upon a system of marketing a proprietary medicine almost identical with complainant's system.

In that case, as in this, the wholesaler could only sell to retailers whose names were furnished by complainant, and who had signed a retailers' agreement obligating them to sell only to consumers at a price named by the complainant, or found on its labels and wrappers. He says, at page 42:

"The plain effect of the 'system of contracts,' the purposed relation of each to every other being confessed by the very description of the method of carrying on business stated in the bill, is first, to destroy all competition between jobbers or wholesale dealers in selling complainant's preparations. Complainant restrains himself by agreeing to sell at only one price and to only such persons as will sign one of his system contracts. The contracting wholesalers or jobbers covenant that they will sell to no one who does not come with complainant's license to buy, and that they will not sell below a minimum price dictated by complainant. Next, all competition between retailers is destroyed, for each such retailer can obtain his supply only by signing one of the uniform contracts prepared for re-

tailers, whereby he covenants not to sell to anyone who proposes to sell again unless the buyer is authorized in writing by the complainant, and not to sell at less than a standard price named in the agreement. Thus all room for competition between retailers, who supply the public, is made impossible. *If these contracts leave any room at any point of the line for the usual play of competition between the dealers in the product marketed by complainant, it is not discoverable. Thus a combination between the manufacturer, the wholesalers, and the retailers to maintain prices and stifle competition has been brought about. It is true that the complainant is not in a combination with other makers of 'Peruna.' There are no others. If there were, there would not be a complete or general restraint; for it might then happen that these others, not being bound by any covenants, could supply the public. If the supply to come from them was adequate for the public demand, the public might be in no wise affected. Now, if the complainant had absorbed all the sources from which the demand for lumber, or furniture, or stoves could be supplied and then should say, 'I will sell only to those who will resell only to those I shall license to buy and only at the price I dictate,' could any voice be raised to say that the covenants, which every dealer should sign in order to prevent exclusion from trade in such articles, would be upheld by the courts and a remedy by injunction granted to restrain breaches?'* (Italics are ours.)

In a subsequent case, *Dr. Miles Medical Co. v. John D. Park & Sons*, 164 Federal Reporter, 805, precisely the same system came before the Court, with the exception that in the *Hartman* case the contract between the manufacturer and the jobber

was concededly one of sale, while under the Dr. Miles system it was claimed to be one of "consignment" or "agency," and not "sale."

Judge LURTON, again writing the opinion, says that even if it were an agency, it would not legalize the system.

"We see no substantial difference between the systems of contracts under which the Dr. Miles Medical Company is now conducting its business and that under which Dr. Hartman carried on his business as a manufacturer of Peruna, considered by this court at length in the case of *Jno. D. Park & Sons v. Hartman*, 153 F. R., 24. That case is pending, undecided, in the Supreme Court. The complainant's very learned counsel was the counsel for Hartman in that case and both systems of contracts are most probably the fruit of his acknowledged skill in respect to this class of business arrangements. No difference whatever is suggested between the system of contracts considered in that case and those here presented except, it is claimed, that the agreement with jobbers and wholesale dealers here involved is one of bailment or agency and not one of sale as in the *Hartman* case. *If this were admitted* it does not in our judgment, *operate to legalize the 'system' of which that agreement is but one part. The effect of that contract with jobbers, whether it be regarded as one of sale or of agency, is to restrain jobbers from selling to any save retailers licensed by complainant and to restrain retailers from selling for resale to any save those licensed to buy or to persons who buy for consumption only, and to none, by either jobber or retailer, except at a price imposed by the manufacturer. The confessed object of this plan or system is to obtain a price to the jobber and to the retailer unaffected by any competition between them. The*

scheme is one to enhance or maintain prices by eliminating all possibility of competing rates between either jobbers or retailers and is quite as effectual in its results as if the contract with the jobber was plainly one of sale." (Italics are ours.)

When that case came before this Court (220 U. S., 373), Mr. Justice HUGHES, analyzing the contracts, says:

"That these agreements restrain trade is obvious. That, having been made, as the bill alleges with 'most of the jobbers and wholesale druggists and a majority of the retail druggists of the country' and having for the purpose the control of the entire trade, they relate directly to interstate as well as intrastate trade and operate to restrain trade or commerce among the several states is also clear.

Again he says:

"But agreements or combinations between dealers, having for their sole purpose destruction of competition and the fixing of prices are injurious to the public interest and void. They are not saved by the advantages which the participants expect to derive from the enhanced price to the consumer."

In *Montague v. Lowry* (*supra*), an association of wholesale dealers in tiles in San Francisco and vicinity and non-resident manufacturers of tiles, in which the dealers agreed not to purchase from manufacturers not members of the association, and not to sell tile to non-members for less than list prices, which were more than 50 per cent. higher than prices to members, while the manufacturers agreed not to sell their manufactures or wares to

dealers at any price under penalty of forfeiture of membership, was condemned as an agreement or combination in restraint of trade.

The plaintiffs in that case were unable to procure tiles from the manufacturers at any price, or from the dealers in San Francisco at less than the list price, which was largely in excess of the price at which members of the association could buy the same.

In that case the association attempted to do precisely what the complainant attempts to do in the case at bar, that is, to dictate the persons who could deal in tiles, and for the purpose of such dealings purchase the same at less than the "list price." Only members of the association were procured to make such purchases in the tile case; only licensed dealers or distributors are permitted to make such purchases in the case at bar, and the determination as to who was to be admitted in the membership in the one case or permitted to be a "licensed dealer" or "distributor" in the other case was not a matter of right, but left to the capricious decision of those who established the system.

Prior to the decision of the *Santogen* case it was assumed that the manufacturer of goods under the monopoly of a patent had the lawful right of selling and at the same time controlling the resale price of his commodities; but even then it was held in *Standard Sanitary Manufacturing Co. v. U. S.* (*supra*), Mr. Justice McKenna delivering the opinion of this Court, that where the manufacturers and jobbers of enamel ware combined for the same purpose and result as the association of manufacturers and dealers in tiles, which was condemned in *Montague v. Lowry* (*supra*), that:

"The added element of the patent in the case at bar cannot confer immunity from a

like condemnation, for the reasons we have stated,"

and those reasons are as follows:

"In this statement certain things are prominent. Before the agreements the manufacturers of enameled ware were independent and competitive. *By the agreements they were combined, subjected themselves to certain rules and regulations, among others not to sell their product to the jobbers except at a price fixed not by trade and competitive conditions but by the decision of the committee of six of their number, and zones of sales were created. And the jobbers were brought into the combination and made its subjection complete and its purpose successful.* Unless they entered the combination *they could obtain no enameled ware from any manufacturer who was in the combination,* and the condition of entry was not to resell to plumbers except at the prices determined by the manufacturers. The trade was, therefore, practically controlled from producer to consumer and the potency of the scheme was established by the co-operation of 85 per cent. of the manufacturers and their fidelity to it was secured not only by trade advantages but by what was practically a pecuniary penalty, not inaptly termed in the argument 'cash bail.' The royalty for each furnace was \$5, 80 per cent. of which was to be returned if the agreement was faithfully observed; it was to be 'forfeited as a penalty' if the agreement was violated. And for faithful observance of their engagements the jobbers, too, were entitled to rebates from their purchases. It is testified that 90 per cent. of the jobbers in number and more than 90 per cent. in purchasing power joined the combination.

The agreements clearly, therefore, transcended what was necessary to protect the

use of the patent or the monopoly which the law conferred upon it. They passed to the purpose and accomplished a restraint of trade condemned by the Sherman Law. It had, therefore, a purpose and accomplished a result not shown in the Bement case. There was a contention in that case that the contract of the National Harrow Company with Bement & Sons was part of a contract and combination with many other companies and constituted a violation of the Sherman Law, but the fact was not established and the case was treated as one between the particular parties, the one granting and the other receiving a right to use a patented article with conditions suitable to protect such use and secure its benefits. And there is nothing in Henry v. A. B. Dick Co., 224 U. S., 1, which contravenes the views here-in expressed." (Italics are ours.)

In *Straus v. American Publishers' Association* (*supra*) the owners of several separate copyrights entered into agreements between themselves concerning the supply and price of books published under their separate copyrights. In that case the Court of Appeals of the State of New York had decided that the agreement between the publishers in so far as it sought to control the price and supply of *uncopyrighted* books was unlawful, but that the copyright statutes granted a monopoly of the sale of *copyrighted* books; that a combination between the owners of that monopoly of sale was lawful, and not subject to attack under the local or Federal anti-trust laws.

That case then came to this Court by writ of error. Mr. Justice DAY, writing the opinion for the unanimous Court, says:

"In the case of *Standard Sanitary Mfg. Co. v. United States*, 226 U. S., 20, this court had under consideration the effect of the patent statute upon agreements found to be unlawful under the Sherman Law, and the agreements condemned were held not to be protected as within the patent monopoly conferred by the statute. Replying to the contention as to the protection which the patent law gave to enter into such agreements, this court said (p. 49):

'Rights conferred by patents are indeed very definite and extensive, but they do not give any more than other rights an universal license against positive prohibitions. The Sherman Law is limitation of rights, rights which may be pushed to evil consequences and therefore restrained.'

So, in the present case, it cannot be successfully contended that the monopoly of a copyright is in this respect any more extensive than that secured under the patent law. No more than the patent statute was the copyright act intended to authorize agreements in unlawful restraint of trade and tending to monopoly in violation of the specific terms of the Sherman Law, which is broadly designed to reach all combinations in unlawful restraint of trade and tending because of the agreements or combinations entered into to build up and perpetuate monopolies."

In view of these decisions it is clear that contracts, agreements or combinations which tend to control the supply and price of patented articles are unlawful and against the statutes against monopoly as much as similar combinations concerning unpatented articles.

In *United States v. Kellogg Toasted Corn Flake Co.* (*supra*), an action brought by the United

States in equity under the Sherman Anti-Trust Law attacking certain price restrictions imposed by the manufacturers upon the resale of Kellogg's Toasted Corn Flakes, the case was heard under the Expedition Act before Circuit Judges WARINGTON and KNAPPEN and District Judge TUTTLE.

The defendant was the owner of a patent on cartons or packages and sold its breakfast food in such cartons under a system of uniform prices to the jobbers, and for the purpose of compelling a uniform price at retail had attached to each carton the following notice:

"This package and its contents are SOLD CONDITIONALLY by us with the distinct understanding, which understanding is a condition of the sale, that the package and contents shall not be retailed, nor advertised, nor offered for sale at less than 10 cents per package. Retailing the package at less than 10 cents per package is a violation of the conditions of sale, and is an infringement on our patent rights, and renders the vendor liable to prosecution as an infringer.

Kellogg Toasted Corn Flake Company,
Battle Creek, Michigan."

The Court considered the rights of patents, and says:

"The petition charges that restraint and monopoly are actually effected. When it is once established that the monopoly of the patent does not continue after the right of sale has once been exercised, the case is to be considered as if there were no patent; and so considered, the case falls directly within cases such as the *Miles Medical Company against Parks* cases and others cited in this opinion."

Even if the patent monopoly extended to a resale, a combination between 7,000 dealers throughout the United States at wholesale and retail to carry this system of complainant's into effect would be unlawful and contrary to the anti-trust statutes. But since the *Sanatogen* case has decided that the patent does not control the field of resale, the system is clearly unlawful.

Nor is the covenant fixing the resale price the only element of illegality in the system. The agreements provide that the distributors shall be permitted to sell to those retail dealers who are designated by the Victor Company, and to none other. The designation of dealers depends altogether upon the caprice of the Victor Company. It is virtually what has become known as a "white list," as distinguished from a "black list." Dealers not designated are outlaws. They can neither buy nor sell Victor machines and Victor records. Such a system is a clear restraint imposed by contract upon all the wholesalers, and obstructs the free course of interstate trade and commerce, and unduly suppresses competition by excluding obnoxious, non-designated retail dealers from participation in commerce. Such systems have been condemned in this Court.

Montague v. Lowry (*supra*).

Eastern States Retail Lumber Dealers' Association v. United States (1913), 233 U. S., 600.

Grenada Lumber Co. v. State of Mississippi (1909), 217 U. S., 433.

In the *Eastern States Retail Lumber Dealers' Association* case Justice DAY, writing for the unanimous Court, says as follows:

"As distinguished from this situation, the present case shows that the trade of the listed wholesalers is hindered or impeded; that competition is suppressed and the natural flow of commerce interfered with as the direct result of the circulation of the official reports in the manner stated. The case is quite different from the *Anderson* case. And see *W. W. Montague & Co. v. Lowry*, 193 U. S., 48, 48 L. Ed., 612, 24 Sup. Ct. Rep., 307.

A retail dealer has the unquestioned right to stop dealing with a wholesaler for reasons sufficient to himself, and may do so because he thinks such dealer is acting unfairly in trying to undermine his trade. 'But,' as was said by Mr. Justice LURTON, speaking for the Court in *Grenada Lumber Co. v. Mississippi*, 217 U. S., 433, 54 L. ed., 826, 30 Sup. Ct. Rep., 535, 'when the plaintiffs in error combine and agree that no one of them will trade with any producer or wholesaler who shall sell to a consumer within the trade range of any of them, quite another case is presented. An act harmless when done by one may become a public wrong when done by many acting in concert, for it then takes on the form of a conspiracy, and may be prohibited or punished, if the result be hurtful to the public or to the individual against whom the concerted action is directed.'

When the retailer goes beyond his personal rights, and, conspiring and combining with others of like purpose, seeks to obstruct the free course of interstate trade and commerce, and to unduly suppress competition by placing obnoxious wholesale dealers under the coercive influence of a condemnatory report, circulated among others, actual or possible customers of the offenders, he exceeds his lawful rights, and such action brings him and those acting with him within the condemnation of the Act of Congress, and the District Court was right in so holding.

POINT III.

Combinations and agreements whose sole object is to maintain and fix prices or to prevent competition in the supply or price of any article of commerce, are and always have been condemned by the common law, and are contrary to the public policy, not only of the United States, but of a majority of the States.

In this Court systems of price maintenance, both as to ordinary commodities as well as those protected by patent or copyright, have been condemned as contrary both to the Sherman Anti-Trust Law and also as to the common law.

Dr. Miles Medical Co. v. John D. Park & Son (1910), 220 U. S., 373.

Standard Sanitary Manufacturing Co. v. United States (1912), 226 U. S., 49.

Straus v. American Publishers Association (1913), 231 U. S., 222.

The opinions in those cases show that to some extent the contracts condemned were unlawful as prohibited by the statutes against monopolies, but that, to an equal extent, they were condemned by the common law and public policy. Those decisions have been commented upon in the previous point, and need not be further examined. They are supported in their interpretation of the common law by numerous decisions of the highest courts of almost all the States.

Every system of price control, whether under patents, copyrights, secret processes or trade-marks, when attacked in the courts, has placed its main reliance upon the opinion of Judge LUTON in the

case of *Heaton-Peninsular Button Fastener Co. v. Eureka Specialty Co.* (1896), 77 Fed. Rep., 228. From the time that that decision was rendered by him as a member of the Circuit Court of Appeals of the Sixth Circuit, he was the most ardent and learned champion of the power of a patentee to control the resale price of the patented article, and the conditions under which it could be used. As a member of this Court, he wrote the majority opinion in the *Mimeograph* case (1911), which permitted the owner of a patent to restrict the subsequent use of the patented article in whosoever hands it happened to be. He was one of the dissenting Justices in the *Sanatogen* case (1913), which established that the owner of a patent did not have the right to control the subsequent re-sale price. He as vigorously and as learnedly denounced and condemned as unlawful any system by which an *unpatented* article was sought to be controlled in a similar way, and joined in the unanimous decisions which condemned combinations by separate owners of patents or copyrights to control the retail price. As emphatically and energetically as he asserted the right of a patentee under a governmental monopoly to control prices, so emphatically he denied that right to one not expressly empowered so to do, by either a copyright or a patent.

In an opinion rendered by him in *John D. Park & Sons v. Hartman*, 153 Fed. Rep., 24, he examines and explains almost every opinion of importance rendered up to that time in the Federal or in the State courts upon restraints of trade, more especially restrictions as to resale price, which he unqualifiedly condemns. He came to the conclusion that all such systems were condemned by the common law and against the best interest of the public. In characteristic language he says:

"That the suppression of even unreasonable competition will sanctify an agreement or combination to restrain trade will not be claimed. *The whole economic system which has made our civilization is founded upon the theory that competition is desirable, and the common-law rules against restraints of trade rest upon that foundation.*"

Nor did he ignore the argument presented in his Court that there is a constant development and change in our commercial life. He says at page 58:

"This principle was very strongly approved by this Court in the *Addyston Pipe* case, so frequently referred to, and many other cases cited in its support. *It has been suggested that we should have regard to new commercial conditions and a tendency toward a relaxation of old common law principles which tend to prevent development on modern lines. This is an argument better addressed to legislative bodies than to the courts. Neither is it wise for the courts to countenance the introduction of artificial distinctions dependent upon the variant economic views of individual Judges. Distinctions which are specious or analogies which are but apparent will but afford opportunities to whittle away broad economic principles lying at the bottom of our public policy, principles which have long received the sanction of statesmen and the approving recognition of a long line of jurists. A like argument is expected when some new method of circumventing freedom of commerce comes under the tests of the law. It was made and answered by Judge TAFT in the Addyston Pipe case with a strength to which we can add nothing.*"

The *Hartman* case, in which Judge LURTON'S opinion was rendered, never reached the Supreme

Court. *Dr. Miles Medical Company v. Hartman* (*supra*), which involved the same system, and in which Judge LURTON reasserted his views pronounced in the *Hartman* case, were passed upon by this Court, and Mr. Justice HUGHES approved both the reasoning and the result arrived at by Judge LURTON.

Numerous other opinions of this and other courts could be cited to support the proposition that any contract, or combination, or arrangement, which prevents competition in the price at which the public can purchase an article of commerce, or controls its supply, are vicious and unlawful, but we lay special stress upon Judge LURTON's opinion because of his pronounced and firmly rooted conviction that the right of control of subsequent resale was an incident of *monopoly* pure and simple to be enjoyed only by those who held a governmental grant of monopoly under the Patent or Copyright Laws.

Not only have such contracts or systems been condemned by the common law as injurious and contrary to public policy, but Congress in the Sherman Anti-Trust Law and the Clayton Bill and the Legislature or Constitutions of a majority of the States have announced the same theory and enacted prohibitory laws. Thirty-seven States of the Union have more or less drastic laws forbidding the fixing of prices of any article of commerce.

ALABAMA—Constitution of Alabama (1901), Section 7579; Code of Alabama, Criminal.

ARIZONA—Constitution (1910), Article XIV; Penal Code, Section 579, Title XV; Laws of 1912, Chapter 73, Section 1.

ARKANSAS—Laws of 1905, Act 1.

- CALIFORNIA—Statutes 1907, page 984, as amended;
Statutes 1909, page 593.
- COLORADO—Laws of Colorado (1913), Chapter 161.
- CONNECTICUT—Laws of 1911, Chapter 185.
- FLORIDA—Laws of 1915, Chapter 6933 (No. 127),
page 281.
- GEORGIA—Penal Code, Section 707; Civil Code,
Section 4253.
- IDAHO—Constitution, Article XI, Section 18;
Laws of 1909, 127; Laws of 1911, Chap. 215.
- ILLINOIS—Illinois Criminal Code, Sections 3550,
3555.
- INDIANA—Burns' Annotated Indiana Statutes, Sec-
tions 3878, 3884.
- IOWA—Code of Iowa (1897); Supplemental Code
of Iowa (1913), Section 5067.
- KANSAS—Kansas General Statutes 1909, Section
5185.
- KENTUCKY—Constitution, Section 198; Kentucky
Statutes (1915), Sections 3915, 3918.
- LOUISIANA—2 Louisiana Revised Laws (1904),
page 1804.
- MASSACHUSETTS—Laws of 1911, Chapter 503, Sec-
tion 1; Laws of 1913, Chapter 709.
- MICHIGAN—Howell's Michigan Statute, Section
2949, paragraphs 4 and 5, Section 14887.
- MINNESOTA—General Statutes of Minnesota
(1913), Section 8973.
- MISSOURI—Revised Statutes of Missouri as
amended by Laws of 1913, Sections 10299,
10301.
- MISSISSIPPI—Mississippi Code, Section 5002, para-
graph D, as amended by Laws of 1908, Chapter
119.
- MONTANA—Laws of Montana (1909), Chapter 97.
- NEBRASKA—Revised Statutes of Nebraska (1913),
Section 4017, paragraphs 4 and 5.

- NEW JERSEY**—Laws of New Jersey (1913), Chapter 13, Section 1, paragraphs 4, 5 and 6.
- NEW MEXICO**—New Mexico Statutes of Codification (1915).
- NEW YORK**—Consolidated Laws, Chapter 25 of General Business Law, Section 340.
- NORTH CAROLINA**—Public Laws of North Carolina (1913), Chapter 41.
- NORTH DAKOTA**—Laws of North Dakota (1907), Chapter 259.
- OHIO**—General Code of Ohio (1910), Section 6391.
- OKLAHOMA**—Revised Laws of Oklahoma (1910), Sections 8220, 8227.
- SOUTH CAROLINA**—Code of Laws of South Carolina (1902), Section 212.
- SOUTH DAKOTA**—Laws of South Dakota (1909).
- TENNESSEE**—Code of Tennessee (1896), Section 3185.
- TEXAS**—Revised Civil Statute of Texas (1911), Article 7796, Sections 2, 3, 4 and 5.
- UTAH**—Compiled Laws of Utah (1907), Sections 1752, 1753.
- WASHINGTON**—Constitution of Washington, Article XII, Section 22.
- WISCONSIN**—Wisconsin Statutes (1911), Section 1791-J.
- WYOMING**—Constitution, Article X, Section 8.

The New York Statute reads as follows:

Section 340. "Every contract, agreement, arrangement or combination whereby a monopoly in the manufacture or sale in this State of any article or commodity of common use, is or may be created, established or maintained, or whereby competition in this State in the supply or price of any such article or commodity may be restrained or presented, or whereby for the purpose of

creating, establishing or maintaining a monopoly within this State of the manufacture, production or sale of any such article or commodity, the free pursuit in this State of any lawful business, trade or occupation is or may be restricted or presented, is hereby declared to be against public policy, illegal and void." Consolidated Laws, Ch. 25. General Business Law.

When the constitutionality of that statute was attacked, the Court of Appeals held that it was but a little more than a codification of the common law upon the subject, and in *Straus v. American Publishers Association*, 177 N. Y., 473, the Court held that, pursuant to the provisions of that statute, a combination to establish and fix prices of uncopyrighted books was forbidden.

A decision frequently quoted as containing a contrary view is found in the State of Washington. *Fisher Flouring Mills Co. v. Swenson*, 76 Wash., 649. It is undoubtedly true that the Court in that case sustained the right to fix resale prices, but it did so in the face of a provision of a clause of the Constitution of that State, which provides that :

"No incorporated company, co-partnership or association of persons in th's State, shall directly or indirectly combine or make any contract with any other incorporated company, * * * or with any co-partnership or association of persons, or in any manner whatever, for the purpose of fixing the price * * * of any product or commodity."

In England, although the strict common law rule against every restraint of trade has been somewhat relaxed since the decision of *Mitchell v. Reynolds*, 1 P. Wms., 181, systems which seek to control by

notice the resale price of articles not protected by patents have not been sanctioned by the courts.

In *Taddy & Co. v. Sterius Co.*, 20 T. L. R., 102 Eng. Ch. D., tobacco was sold in boxes, accompanied by invoices, labels, etc., stating the terms of sale. The price was printed on the box with the following notice:

"All of the above packet tobacco and cigarettes are sold by Taddy & Co. upon the express condition that retail dealers do not sell the packet tobacco or cigarettes below the prices set forth. Acceptance of the goods will be deemed a contract between the purchaser and Taddy & Co. that he will observe these stipulations."

There the Court said:

"Conditions of this kind did not run with the goods and could not be imposed upon them. Subsequent purchasers, therefore, did not take the goods subject to any conditions which the Court could enforce."

The Court also held on other grounds that the contract claimed to be created thereby was not one on which plaintiff could sue a third party.

That case was followed and approved in *McGruther v. Pitcher* (1904), 2 Chan., 306.

The distinction which the English courts have established between sales of patented and unpatented articles under the construction of the English Patent Statutes are pointed out in the recent case of *National Phonograph Co. v. Menck* (1911), 27 Times L. R., 239, where the cases were cited and reviewed, and Lord SHAW, in delivering the opinion of the Court, said:

"To begin with, the general principle, that is to say, the principle applicable to ordinary goods bought and sold, is not here in question. The owner may use and dispose of these as he thinks fit. He may have made a certain contract with the person from whom he bought, and to such a contract he must answer. Simply, however, in his capacity as owner, he is not bound by any restrictions in regard to the use or sale of the goods, and it is out of the question to suggest that restrictive conditions run with the goods."

After referring to former cases, he asserts that under the English statutes granting patents power is given to the patentee to impose restrictions which, if brought home to the purchaser, are binding in opposition to the general doctrine of absolute freedom of disposal of chattels of an ordinary kind.

The petitioners contend that the decisions of this and other courts which condemn systems that fix and maintain prices of articles that are the subject-matter of ordinary commerce are based upon principles which are as old as the nation itself, and properly interpret sane and sound principles of law and of economics—principles which, as stated by Judge LURTON, "have long received the sanction of statesmen and the approving recognition of a long line of jurists."

POINT IV.

If the contract could be construed as a limitation upon the title of the instruments and records, it would be unenforceable under the Patent Law, and void as a restriction upon alienation.

To say that the Patent Law does not give the right to manufacture, use or vend, but merely the right to *exclude* others from manufacturing, using or vending, has been abundantly iterated and reiterated in the decisions. When a patentee, therefore, manufactures, uses or sells his article, he exercises no right bestowed by the Patent Law, because he could manufacture, use or sell his product even though he had no patent. When he exercises any of those rights, he must conform to the law which prevails and controls the manufacturers of other articles that are not patented. He cannot manufacture explosives, for instance, in a community which forbids the manufacture of explosives. He cannot use his product if that use violates the law of the land. He cannot sell his article if the sale thereof be forbidden.

Patterson v. Kentucky, 95 U. S., 509.

Illustrations of these limitations upon the use and sale of products manufactured under patents can readily be found in the prohibition placed, in most communities, upon the sale and the use of injurious drugs or adulterated foods.

Having, therefore, only the right of *excluding others* from the manufacture, sale or use of his article, a *sale* by him is not the exercise of any new right, and is governed by the same law as governs unpatented articles; and a sale by him which

restricts the right of alienation is as unenforcible in a patented as it is in an unpatented article.

The clauses in the agreements in the case at bar which are relied upon to make the contract a "conditional sale," and the language of that contract, as well as the argument in the brief below, strongly support the inference that it was intended to create the appearance of a qualified title for the deliberate purpose of making it fit the language used by Mr. Justice DAY in the *Sanatogen* case, without, however, changing the actual aspect of the transaction in the slightest degree.

But if a "conditional sale" was made, then the condition, namely, that the use of the machines and records could not be transferred during the life of the youngest patent, is repugnant to the law against alienation of personal property, and directly contrary to the statutes of the State of New York.

The Personal Property Law, Section 11, Laws of 1909, Chapter 45, provides:

"That the absolute ownership of personal property shall not be suspended by any limitation or condition for a longer period than during the continuance and until the termination of not more than two lives in being at the date of the instrument containing such limitation or condition."

If neither the petitioner nor the respondents can transfer the title until the expiration of the youngest patent, then it is very clear that during that period the absolute ownership cannot be transferred for a fixed and determined period, to wit, the life of the youngest patent.

It has been repeatedly held in New York that a period of time, however short, *cannot be substituted in place of two lives in being* as the measure of

the period during which personal property cannot be alienated.

Underwood v. Curtis, 127 N. Y., 523, at p. 538.

Schettler v. Smith, 41 N. Y., 328.

But it may be argued that the title is in the complainant, though the right of possession and the right of use are in the petitioners during this period, and that the complainant can transfer this limited interest, although it cannot transfer a complete title because the licensee is entitled to the reversionary interest upon the expiration of the youngest patent and has in the meantime the use and possession. It is, however, clearly established that in order that the "absolute" ownership of property shall not be suspended, *all interests* in it must be both alienable and vested. If any interest is not alienable, or is contingent, the ownership is not absolute.

Matter of Wilcox, 194 N. Y., 288.

In *Miles Med. Co. v. J. D. Park & Sons*, 220 U. S., 373, Mr. Justice HUGHES in passing upon the system there involved, where there was an attempt to disguise the wholesale dealers in the mask of agents, upon the theory that in that character one link in the system for the suppression of the cut-rate business might be regarded as valid, took up the question of such a system constituting a restraint upon alienation, and quotes with approval Judge LURTON's opinion in *John D. Park & Sons Co. v. Hartman*, 153 Fed., 24, as applicable to the case. (See also *Gray on Restraints on Alienation*, §§27 and 28.)

POINT V.

Most serious and disturbing consequences will follow if the decision of the Circuit Court of Appeals sustaining the system of marketing goods under consideration be approved by this Court.

If patented articles can be passed from hand to hand with a lawful exclusive possession concededly in each person to whom they are passed; with the lawful exclusive use of the articles in the persons in possession; with the ultimate title to be vested in the possessor; with full payment of all that he ever expects to get being made to the patentee; with all *indicia* of ownership in the purchaser, and the transaction be not regarded as a sale subject to the ordinary rules of law governing sales, but only as a license to use, protected by the Patent Law, there will be a serious disturbance in the methods of commercial dealing, whose consequences cannot be foretold. Not only will the Federal courts have sole jurisdiction to the exclusion of the State courts, but State laws, enacted for the purpose of the protection of the public to prevent imposition and fraud, will practically be annulled. Thus, in the State of New York, it has been found necessary to prevent fraudulent dealers from securing unwarranted credit through the purchase of quantities of goods under contracts which reserve the title to the vendor. The vendee being in possession, presents the appearance of being the owner of a large stock of goods on hand and of being correspondingly responsible financially. When financial troubles arise, the original vendor, claiming ownership by reason of reservation of the title, deprives creditors of his vendee of most of the assets upon which they relied in extending credit.

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The New York Legislature, for the purpose of preventing such impositions, passed Section 62 of the "Personal Property Law," which provides as follows:

Section 62: *Conditions and reservations in contracts for the sale of goods and chattels.*

"Except as otherwise provided in this article, all conditions and reservations in a contract for the conditional sale of goods and chattels, accompanied by delivery of the thing contracted to be sold, to the effect that the ownership of such goods and chattels is to remain in the conditional vendor or in a person other than the conditional vendee, until they are paid for, or until the occurrence of a future event or contingency, shall be void as against subsequent purchasers, pledgees or mortgagees, in good faith, and as to them the sale shall be deemed absolute, unless such contract of sale, containing such conditions and reservations, or a true copy thereof, be filed as directed in this article, and unless the other provisions of the lien law applicable to such contracts are duly complied with * * *."

And Section 65, which provides as follows:

"Sale of property retaken by vendor.— Whenever articles are sold upon the condition that the title thereto shall remain in the vendor, or in some other person than the vendee, until the payment of the purchase price, or until the occurrence of a future event or contingency, and the same are retaken by the vendor, or his successor in interest, they shall be retained for a period of thirty days from the time of such retaking, and during such period the vendee or his successor in interest, may comply with the terms of such contract, and thereupon receive such property. After the expiration of such period, if such terms are not complied with, the

vendor, or his successor in interest, may cause such articles to be sold at public auction. Unless such articles are so sold within thirty days after the expiration of such period, the vendee or his successor in interest may recover of the vendor the amount paid on such articles by such vendee or his successor in interest under the contract for the conditional sale thereof."

Under the license of the complainant, by which possession and title at the expiration of the patent is passed to the distributor and dealer, there is an attempted reservation of title in the vendor until the occurrence of a future event, and it is void as against subsequent purchasers under the laws of the State of New York, unless a copy of the license be filed. The respondent, if it repossessed itself of title, would be bound to hold the instruments for thirty days before it could dispose of them. Under the decision of the Circuit Court of Appeals, this statute is completely nullified.

POINT VI.

The petitioners pray that the order and decree of the Circuit Court of Appeals which reversed the decree of the District Court dismissing the complaint be reversed, and that of the District Court be reinstated and affirmed, with costs.

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EDMOND E. WISE,
Of Counsel.

IN THE
SUPREME COURT OF THE UNITED STATES,
OCTOBER TERM, 1916.

JESSE ISIDOR STRAUS, PERCY S.
STRAUS and HERBERT N. STRAUS,
composing the firm of R. H.
Macy & Co.,

Petitioners,

AGAINST

VICTOR TALKING MACHINE
COMPANY,

Respondent.

No. 374.

**Motion of Counsel for American Graphophone
Company and Columbia Graphophone Com-
pany for Leave to File a Brief as Amici
Curiae.**

Now come *Elisha K. Camp, Daniel N. Kirby and Taylor E. Brown*, counsel for the "American Graphophone Company" and for the "Columbia Graphophone Company," and respectfully move for leave to file a brief in the above entitled cause, as *amici curiae*, and in support of this motion respectfully represent:

1. That said last named companies are complainants in an action brought by them against the "Boston Store of Chicago", now pending on appeal in the United States Circuit Court of

Appeals for the Seventh Circuit, wherein is involved the right (claimed by said companies as existing under the patent laws of the United States) of a patentee, in selling a patented article manufactured by him, to restrict by direct contract with his immediate vendee, the price at which the latter may resell the article. Said American Graphophone Company is the owner of various patents under which it manufactures talking machines and sound records which it distributes through the Columbia Graphophone Company (as its sole distributing agent) by means of so-called "price maintenance contracts", entered into by said Columbia Graphophone Company as such agent, with the various dealers (wholesale and retail) through whom such patented products reach the using public.

2. Said Circuit Court of Appeals has announced that it will certify to this Honorable Court certain questions relating to the rights involved in said Boston Store case, but has not yet made such certificate, so that the precise form of the questions to be thus certified cannot now be definitely stated. The issues in said case, however, involve questions closely akin to the questions presented in the above entitled cause wherein this motion is filed, and for that reason your petitioners respectfully pray leave to file the brief, or memorandum of suggestions, which is presented with this motion.

ELISHA K. CAMP,

DANIEL N. KIRBY,

TAYLOR E. BROWN,

Counsel for American Graphophone Company and
Columbia Graphophone Company.

IN THE SUPREME COURT OF THE UNITED STATES.

OCTOBER TERM, 1916.

JESSE ISIDOR STRAUS, PERCY S.
 STRAUS and HERBERT N. STRAUS,
 composing the firm of R. H. Macy
 & Co.,

Petitioners,

No. 374.

AGAINST

VICTOR TALKING MACHINE COMPANY,
 Respondent.

**BRIEF ON BEHALF OF AMERICAN GRAPH-
 OPHONE COMPANY AND COLUMBIA
 GRAPHOPHONE COMPANY, FILED BY
 LEAVE OF COURT.**

I.**Introductory.**

The American Graphophone Company is the owner of various letters patent and patent rights under which it manufactures the talking machines and sound records known as "Columbia" talking machines and records. It distributes the patented product manufactured by it, through the sole agency of the Columbia Graphophone Company, which it owns and controls through stock ownership.

The Columbia Company in turn distributes said products through the medium of a price maintenance system by which said company as agent for the patentee, enters into price restriction agreements with the various wholesale and retail dealers to whom it distributes products and by which it

requires them to observe specified price restrictions in reselling the goods which they thus obtain.

The American Graphophone Company and the Columbia Graphophone Company as complainants, sued the "Boston Store of Chicago," in an action now pending on appeal in the United States Circuit Court of Appeals for the Seventh Circuit, to restrain alleged violations by said defendant of rights claimed under the patent laws of the United States. The Boston Store of Chicago had entered into one of said price restriction agreements and pursuant thereto had obtained Columbia products which it was selling at cut prices.

That suit involves in part, the right (claimed by said companies as existing under the patent laws of the United States), of a patentee, in selling a patented article manufactured by him, to restrict by direct contract with his immediate vendee, the price at which the latter may re-sell the patented article.

The District Court sustained the validity of said price restrictions and granted an injunction from which said appeal was taken.

The Circuit Court of Appeals has announced that it will certify to this Court certain questions relating to the patent rights claimed in said case, but has not yet made its certificate, so that the precise form of the questions to be thus certified to this Court cannot be definitely stated at this time.

The issues in said case, involve questions closely akin to one of the questions presented in the above entitled cause, for which reason, and in order that this Honorable Court may be advised that the Boston Store case will shortly present for decision questions involving the validity of attempted restrictions upon the monopoly right to sell—leave of court has been asked to file this memorandum.

II.

The Question in the Case at Bar.

The case at bar seems to us to turn upon the construction to be given to the transaction involved, *i. e.*, is it a "license to use", or "a sale"?

The Circuit Court of Appeals held it to be a license to use, not a sale.

If it be held a *license to use*, then we respectfully submit that it is governed by *Henry vs. Dick Co.*, 224 U. S., 1, in which this Court held that the monopoly right to use may be validly restricted by a *mere notice* attached to the patented article, as distinguished from a restriction expressly agreed or consented to between the patentee and the proposed user.

If it be held to be a "sale," and governed by *Bauer vs. O'Donnell*, 229 U. S., 1, then the transaction in the case at bar will be decisively distinguishable from the *Boston Store* case, for the reason that in the *Boston Store* case the patentee expressly reserved and retained part of its patent monopoly right to sell, whereas in *Bauer vs. O'Donnell* the patentee made an outright sale of his patented article without reservation of any kind, allowing the patented article to pass out of the monopoly without committing the one to whom the article came by proper agreement to the observance of an obligation on his part, and then tried to recall it or to claim that by a *mere notice* he burdened the article with such a reservation. It will be contended on behalf of the patentee in the *Boston Store* case that the defendant, having thus expressly agreed, by contract, to observe the conditions and restrictions aforesaid, they should be enforced whether the contract be regarded as constituting a valid agreement in and of itself, or, as merely evidencing the extent to which the patentee has retained a part of its monopoly right to sell, and has granted a restricted right to resell.

III.

Suggestions in the case at bar.

We do not feel at liberty in the case at bar, to submit our views upon the above crucial question whether the transaction should be held a license to use, or a sale,—because no similar question is presented in the Boston Store case. But if this Court should hold that it was a sale, then further questions will arise akin to that in the Boston Store case, viz. : to what extent is the monopoly right *to sell* capable of valid restriction ; and between what persons and in what manner should such restriction be made in order to be valid ?

The record in the case at bar shows that the restriction sought to be enforced by the patentee, does not rest upon any agreement entered into *directly with the patentee*, but does rest upon the *mere notice* attached to the goods. Therefore a decision in the case at bar holding the transaction to be a “ sale ” and upholding the Victor Company’s right to restrict its resale prices, would all the more uphold the right of the patentee in the Boston Store case to restrict its resale prices by virtue of the direct restrictive agreement in that case, and the Boston Store case would still be decisively distinguishable from the case at bar by virtue of said direct restrictive agreement even if this Court should *deny* the Victor Company’s right to restrict its resale prices by means of its *mere notice* attached to the patented articles.

And since we understand that the precise question involved in the Boston Store case has been settled by this Court in *Bauer vs. O'Donnell*, we limit this memorandum in the case at bar, to respectfully suggesting (as this Court permitted to be done by the Waltham Watch Company, by its brief filed in the *Bauer* case) :

(a) That in deciding the case at bar this Court have in

mind the fact that the case of American Graphophone Co. and Columbia Graphophone Co. vs. Boston Store of Chicago, 225 F. R., 785, will reach this Court before long; and that the issues in that case involve restrictions upon the sale of patented articles, sought to be imposed by direct agreement or consent between the patentee and the defendant at the very instant of the transaction.

(b) That if this Court should hold that the transaction in the case at bar constituted a sale, it is not necessary to hold that there may not be valid restrictions upon the monopoly right to sell when imposed by direct agreement or consent between the patentee and defendant; and

(c) that in deciding the case at bar this Court leave open for full consideration and decision in future cases, including the Boston Store case, all questions involving restrictions upon the monopoly right to sell, which are not regarded by the Court as strictly necessary to be decided in the case at bar.

The method of distributing patented articles through price maintenance license or sale systems, is in such general use, and constitutes so important an element in the creation and maintenance of the good will of such businesses, that any impairment of the supposed monopoly rights under which those systems have grown up, would necessarily be far reaching in its injurious effect.

Respectfully submitted,

ELISHA K. CAMP,

DANIEL N. KIRBY,

TAYLOR E. BROWN,

Counsel for American Graphophone Company
and Columbia Graphophone Company.

January, 1917.

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Supreme Court of the United States.

October Term, 1916. No. 374.

JESSE I. STRAUS, PERCY S. STRAUS AND HERBERT N. STRAUS, COMPOSING THE FIRM OF R. H. MACY & Co.,

Petitioners,

v.

VICTOR TALKING MACHINE COMPANY,
Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE SECOND CIRCUIT.

BRIEF FOR RESPONDENT.

This cause is here on Writ of Certiorari to review a decretal order of the United States Circuit Court of Appeals for the Second Circuit, which reversed a decree in equity, of the United States District Court for the Southern District of New York, which granted defendants-petitioners' motion under Equity Rule 29 to dismiss the amended bill of complaint herein. Said motion assigned three grounds of demurrer (Record, p. 20), in substance, as follows: (1) That the Court had no jurisdiction of the cause of action; (2) that it appeared upon the face of the amended bill that the facts therein set forth were insufficient to constitute a valid cause of action in equity; and (3) that it appeared upon the face of the amended bill that the respondent's method and system of marketing its pat-

ented machines and sound records was contrary to law and in violation of the so-called Anti-Trust Laws, known as the Sherman Act and the Clayton Act. The motion was granted and the bill dismissed, by the District Court, Judge Hough sitting, upon the second ground only (Record, p. 21). The case is, therefore, here on the pleadings only consisting of the amended bill of complaint and the motion to dismiss, in the nature of a demurrer. It should be stated, however, that the defendants, petitioners, brought a motion to dismiss the original bill, under Equity Rule 29, upon the identical grounds upon which their motion to dismiss the amended bill was made. This original motion does not appear in the transcript of record before this Court. The District Court, by Judge Augustus N. Hand, granted said original motion upon the second ground assigned in support thereof (which was identical with the second ground of demurrer to dismiss the amended bill) and expressly denied the motion as to the first and third grounds thereof (Record, p. 15), Judge Hand stating (Record, pp. 25-28) his reasons for overruling the first and third grounds of demurrer. Judge Hough, on the motion to dismiss the amended bill, filed no opinion. No appeal was taken by petitioners from the denial by the District Court of either of their said motions to dismiss on the first and third grounds assigned, and the case went up on each appeal on the single ground of whether or not the bill of complaint stated a valid cause of action.

POINTS FOR REVIEW.

In response to the petitioners' statements, under above heading, on pages 5 and 6 of their brief, we desire to controvert the same, in this section, under Rule 21 of this court, in the following respects: (1) in the trial court, Judge Hough filed no opinion nor did he

make any oral statement that "in both the original and amended complaint" it was disclosed that "the patentee has permanently parted with the entire right to use and has no longer any interest in the royalties from subsequent sales"; nor (2) did the Court of Appeals hold "erroneously" or otherwise, that "coupled with the right to use, the patentee had the right to control the assignment, transfer or sale of that right to use, by virtue of the patent law."

To the five points for which "Petitioners contend," as set forth on page 6 of their brief, we reply: As to Point 1, the "restriction" referred to, *should* be considered in determining the character of the whole license attached to the machine. As to Point 2, the point assumes as true, the erroneous premises (a) that the patentee had received "all the royalties to which it was entitled when it transferred possession of the instrument" and thereby (b) "exhausted its monopoly to vend"; the facts being that both premises are without support in the record; the license shows the error of the first assumed premise, while the same plus the averments in the bill refute the idea of an exercise of the exclusive right "to vend" within the meaning of the patent statutes.

As to Point 3, which goes to jurisdiction, it is founded erroneously on the mistaken premise that "in so far" as the "instrument" "is concerned" there was a "sale or transfer" which exhausted the plaintiff's rights under the Patent Law; and for reply to this point see *infra*, p. 15.

Point 4 goes to alleged violation of the anti-trust laws by the "system" referred to. This point needs no comment other than is stated herein, *infra*, p. 15.

Point 5 relates to the same subject, and is founded on the *erroneous* premise that plaintiff's "system" of licensing its patented products, involves "the right to control the subsequent *re-sale*," under the patent law.

Pursuant to our right under Section 3 of Rule 21, we submit that the following is a correct statement of the points for review, founded on a correct recital therein, so far as necessary to elucidate them, of the questions presented by the record:

I. Whether the specific licenses, recited in full in paragraphs 19 and 20 of the bill (Record, pp. 8 and 10) accompanying and specific to each machine and sound record, is a valid exercise by a manufacturing patentee, of his exclusive right "to use," vested in him by his patents for the articles in question, and binding on a member of the public who, with notice thereof, desires to acquire such license right, and lawful right of possession of the specific machine or record thereby licensed.

II. Whether the respondent's system of marketing its patented products, by the aforesaid specific license, accompanying and specific to each machine and record, which not only reserves the *title* to the machine or record but licenses only a right "to use it," is a valid exercise of its patent monopoly, fairly within the severable exclusive right "to use," both as to condition precedent and conditions subsequent, therein recited, and binding on a member of the public, with notice, desiring to acquire lawful possession of the patented thing with the limited right of use thereby given.

III. Whether the petitioners (defendants) having covertly obtained a number of plaintiff's patented machines and records without having paid the initial royalty or license price therefor, set forth in the license affixed to each of said machines and records, and hence in violation of a condition precedent therein requiring such payment, and with full notice thereof, acquired any absolute title to or unrestricted ownership of such machines as against the manufacturing patentee and licensor.

IV. Whether the specific license, attached to or accompanying each machine and record, being valid, is any the less so because the manufacturing patentee has marketed its patented machines and records, and the specific licenses pertaining thereto, through the instrumentality of distributing agents under contracts with them which give them no title to the licensed machines or license right to use the same, but merely the right to assign or deliver such specific license and the thing licensed, to the public subject to all the conditions thereof.

ABSTRACT OF THE BILL AS AMENDED.

Following the usual recital of the domicile of the respective parties, the jurisdiction by reason of the patent statutes, the peculiar nature of the patented machines and sound records, and the propriety and reasonableness of the plaintiff's system of marketing its product, the bill avers the grant of a certain series of letters patent for plaintiff's sound reproducing machine and its sound records adapted to be used therewith; their ownership by plaintiff; the extensive reduction to practice of the patented devices; the method by which plaintiff gives the public the benefit thereof; the method by which it recoups itself for the cost of manufacture, plus a low percentage for manufacturing profit only, and the method by which it obtains, by way of royalty or tribute, the benefit and value of its patent monopoly. Briefly stated, the latter is effected by a delivery of the physical thing, accompanied by a specifically limited *use* license affixed thereto, on payment *by such licensee*, of a certain initial or cash royalty, as a *sine qua non* to the passing of any title or right of possession or use; such right when so given, vesting a qualified title only to the physical thing in the licensee, with a specific and

limited license to use under the patents, to be enjoyed in connection with the specific physical thing accompanying it, the plaintiff's licensee therefore acquiring possession with full knowledge of such limited license.

The cause of action averred and charged is therefore purely infringement of patent, and the relief prayed accords therewith. It charges (in paragraphs 23A, 23B and 24, Record, pp. 17 to 19) infringement of patents by persons who, having by various pretences acquired possession from plaintiff's licensed distributors or dealers, large numbers of the patented machines and sound records, without having performed the condition precedent; i. e., without having paid the full initial royalty, and with full knowledge, in addition to full notice (by license label on each machine or record reciting the patents and the character, conditions and scope of the license) of the conditions, *inter alia* the payment in full of the initial royalty, to the plaintiff or its distributing intermediary, *whereby alone the defendants could acquire not only a right of possession to the physical thing, but a patent license to use it*, have nevertheless asserted (1) an unqualified title as well to the article itself as of the right, under the patents, to use it and sell it, equivalent to asserting that such specific license was invalid in law and not binding upon them; and thereupon (2) deliberately sold and offered for sale, the physical thing without qualification by attempting to sell to the public as their vendees a full and free right to do as they please with either, to alter, use or sell it, in excess of the scope of the license and particularly of the additional expressed limitation (as to use) that the machine should not be used with any other than the patented sound record, nor the latter except with the former; and to thereby set up asserted rights they (petitioners) never paid for and knew were never intended to be given to or acquired by them, and more-

over, to do these unlawful acts in a manner, by store display-signs and advertisements which openly and unqualifiedly express an intent and purpose to not only deal with plaintiff's property the possession of which they acquired without right but to exceed the terms of the specific license to sell to the public an unconditional title thereto, and to disregard the several restrictions of the use license, and by both acts to not only infringe the patent monopoly, but wantonly destroy the plaintiff's established business in its patented machines and sound records.

In addition to the above general averments as to the patents it is averred in the bill that plaintiff's (respondent here) system of so licensing its patented machines and records is effected by delivering to its licensed distributors and dealers, from time to time, a large number of its patented machines and patented sound records, under a general written paramount license, limited, *inter alia*, in two respects: (1) that they were authorized thereby to use them, only for the purpose of *demonstration to the public as possible customers*, and (2) were empowered to make a delivery of the physical thing to any such customer, accompanied by a special license, direct from the plaintiff, for the specific machine or record, and affixed on and specific to each of the same, but, only on payment *by such license* of the full amount of the initial or cash royalty, as a condition precedent to the passing of any title or right of possession of the machine and of the license right to use it. The specific license, attached by way of label, recites the conditions subsequent by way of restrictions on the use as also the aforesaid condition precedent to the lawful delivery of the machine and *use* license, to such customer, who, with full knowledge or notice thereof, thereby acquires through the intervention of the distributing intermediary, but only on compliance with the condition pre-

cedent, i. e., the payment in full on the *initial* royalty, the lawful possession of the physical thing patented, and, from the plaintiff direct, a limited license to use it, and for no other purpose, until worn out or until the patents on it expire, subject to the right of the plaintiff to retake the article for condition broken, and to the right given to the licensee, having performed all the conditions subsequent, during the life of the patents, to thereafter acquire a full title and absolute ownership of the machine or record.

There is a distinguishing circumstance in the case at bar which must not be overlooked. The paramount license between the plaintiff patentee and its distributors of the patented goods passes no title or authority to such licensed distributor save to act as the intermediary of the plaintiff in making delivery of the machine or record, and of the specific license for and attached to each machine or record so delivered to the user or ultimate licensee. The specific license controlling the title to and permitted use of each machine, is not between the plaintiff patentee and the defendants (petitioners) as *third* persons, but between the former and the intended licensee directly. There is created thereby a privity of relation between them, *when such intended licensee, by payment of the initial royalty* becomes a lawful possessor of the machine and of the license right given therewith, because such license affixed to the machine or record, issuing directly from, signed by, and as the act of the plaintiff, and the acceptance of the machine or record, with such license specific to and affixed to it, and with full knowledge of its terms and limitations, creates such privity of relation.

This paramount and limited license to Victor distributors and dealers, for the purposes aforesaid, has been recently interpreted and its legal effect defined, by a recent decision of the United States Court of Ap-

peals for the Third Circuit (decided December 19, 1916, and not yet reported), in an action between one of such licensed distributors, the Aeolian Co., and the Victor Company, wherein the Court said, *inter alia*, that

"The controlling question is the character of the relation between the parties. In the plaintiff's view this was the ordinary relation of buyer and seller. . . . The Victor Co. has a factory in Camden, N. J., and is a well-known manufacturer of talking machines, records, and other articles used in reproducing sound. Most of its goods are patented, and instead of selling them outright it *prefers to exercise its undoubted power to part with them only under a limited license.* These licenses take their place in a system of distribution, part of the system being involved in the present suit. . . . We are considering rights under patents, and we must remember that while a patent lasts it is a monopoly. . . . He (the patentee) may license whom he will. . . . Unless we do violence to the fundamental conceptions of the patent law *we cannot regard the agreement in question as a contract of sale between the patentee and a distributor.* . . . We think it impossible to treat these parties substantially as vendor and vendee, and unless we so treat them the plaintiff has no case."

It is averred in the fifteenth paragraph of the bill (Record, p. 6) that the corporation plaintiff is not only the owner of the patented monopoly, but exclusively employs it in the manufacture of the patented devices, which it produces with very large investment of capital and at great expense, and has adopted and employs a system of marketing its goods, the purpose of which is stated in said paragraph as follows:

"that for the purpose of suitably and efficiently marketing its said patented product so manufactured by it, and thereby introducing the said inventions into public use and of reserving to itself

by appropriate, suitable and reasonable means, the benefit and value of its patent monopoly thereon, has established," etc.

The recital of the system is continued in the same paragraph 15 of the bill as follows:

"it markets and delivers its said machines and sound records to the ultimate user, under special limited title to and right of possession of the patented article accompanied by a limited right of use thereof under the patent monopoly thereon, the property of the plaintiff by virtue of said several letters patent hereinabove recited and others; the said limited title to and right of possession of each machine or record, and the limited license to use the same being evidenced by a recital thereof . . . on each specimen of a certain label securely attached to each machine and identifying it by a certain arbitrary name and number" (and the same as to the records).

The propriety and reasonableness of the respondents method, and, indeed, of any method of enabling a patentee who, as such, assumes the burdens and risk of a manufacturer of a patented article, to obtain a just tribute for his invention (aside from a fair percentage of profit due to him as manufacturer) depends on or should be governed by the nature and character of the patented invention.

The peculiar nature and character of the patented inventions inherent in the machine and in the records, are briefly stated in the seventeenth paragraph of the bill, (Record, p. 7), which support the further averment of propriety and reasonableness of the aforesaid system, adopted by the plaintiff; and the reasons therefor which are set forth in part in the 16th paragraph of the bill. These reasons will, perhaps, be made more apparent if this Court shall refer to its own prior decisions in 213 U. S., pp. 312, 313 and 335, wherein is described the generic machine and record, of this

gramophone type, and the operative relation between the two.

For these reasons and as explanatory of the plaintiff licensing system, it is further averred in the bill (1) that the patented machine is especially adapted for use with the patented sound record, and the latter with the former; (2) that the great utility of each is dependent on the other; (3) that the primary value and benefit of each, *to the public*, is the *conjoint* use of them; and (4) as to the value to the plaintiff flowing from this restricted use license, that it thereby derives its just benefit of its patent monopoly because the consideration given by the licensee is, in part, an initial cash payment which covers no more than cost and minimum manufacturer's profit, and nothing for the patent monopoly, which however the manufacturing patentee secures the benefit of (a) by the increased output of machines and records resulting from the attractively low cash portion of the royalty, and (b) by a valid exercise of the segregable monopoly right "to use", by limiting the use of the patented machine to use of the patented sound record with it, and the use of sound record with the machine; manifestly (c) increasing the output of both, and (d) to the benefit and advantage of the public in obtaining and enjoying the full utility of both "at a minimum of cost."

These restrictions of the license limit the use of the patented sound record and the patented machine with each other, and hence require a use of each in the way to produce its highest and best results, while an absence of such restriction would enable either machine or record to be used without the other and with an inferior or inadequate machine or an inferior record.

The specific license attached to and governing the right of possession and the right of use, of each specimen of the patented inventions, is printed at large in paragraphs 19 and 20 of the bill (Record, pp. 8 to

11), and its nature and character as well as the result and effect thereof, are concisely averred in paragraph 16 thereof. We quote here for the sake of convenience, some of the essential provisions of the license; for the purpose of emphasizing them:

“LICENSE LABEL—VICTROLA XVI.

“This machine is manufactured by us under our patents hereinafter noted, and is *licensed for use only*, for the term of the patent having the longest term to run, *and only with sound records, sound boxes and needles manufactured by us; and our records and sound boxes are licensed only for use with our machines.* Only the right to use the said machine is granted to *Victor distributors and dealers, for demonstrating purposes . . . with the right to the dealers to convey the license to the public to use the said machine only when a royalty of not less than \$200.00 shall have been paid, and upon consideration that all the conditions of license shall be strictly observed.* A similar right is also granted to the distributor to convey to the public the right to use this machine under the same conditions. *No license to use this machine is granted to the public until the full royalty shall have been paid. Title shall remain in the Victor Talking Machine Company; also the right to repossess the said patented goods upon the breach of any of the conditions. . . .* All patent rights are reserved by the licensor except those hereby granted to the licensees upon the performance of the conditions noted. Any excess use, or violation of the conditions, will be an infringement of the said patents. The patents under which this machine is manufactured and licensed for use are, among others, as follows: (Reciting them by number and date.). . . . This machine at the expiration of the patent having the longest term to run, under which it is licensed, shall become the property of the licensee (the machine being then free of the patents, the subject-matter of the license), provided that the licensee shall have faithfully observed the condi-

tions of license, and the Victor Company shall not have previously taken possession of the machine as herein provided."

Respondent does not *sell* its said patented machines and records, but licenses each specific machine and record for *use* only, with certain conditions and restrictions as to such use. Title to the physical things embodying the patented invention, i. e., the sound-reproducing machines and sound records, is expressly reserved by the respondent, the manufacturing patentee (Record, pp. 8 and 10).

Considering the situation now, in the light of the distributors limited license as well as in that of the specific license attached to and governing the right of possession, and right of use, the principal condition we need to consider at this time is the condition precedent recited in both the paramount license to the distributor and in the specific license as follows: that the plaintiff's licensed distributors and dealers are authorized

"to convey the license to the public to use the said machine only when a royalty of not less than \$200 shall have been paid, and upon consideration that all the conditions of license shall be strictly observed."

while, the ultimate user or licensee (these petitioners if they had paid the full initial royalty, which it is averred they did not) would take such rights, if any, only as set forth in the specific license, which provides *inter alia* (supra, p. 12), that "*No license to use this record (or machine) is granted to the public until the full royalty shall have been paid*" . . . that it "is licensed for *use* only . . ." (and that) "All patent rights are reserved by the licensor except those hereby granted to the licensee upon the performance of the conditions noted. . . ."

The mistake of the petitioners, defendants in the case at bar, as indicated by their argument, is in supposing that this case is founded on a breach of contract in violation of an alleged right of a vendor, to fix a *re-sale* price by his vendee. That is distinctly not so. It is on the contrary, as recited in the amended bill, that defendants, having covertly obtained possession of the physical thing and the limited license to use it, *without having paid the full initial cash portion of the consideration required by the terms of the license, as a condition precedent acquired no lawful right of possession and limited right to use as aforesaid*, and then deliberately and wantonly parted with the machine or record at even less than they so paid (to the manifest injury of both parties to this suit); but this last stated injury to the plaintiff in destroying its market as well as its standard royalty rates, for its machines and records is merely an incident in aggravation of the tort of infringement of its patents.

ARGUMENT.

THE FEDERAL COURTS HAVE JURISDICTION OF THE CAUSE OF ACTION HEREIN.

The amended bill of complaint charges infringement of the Letters Patent enumerated in the bill and prays for the usual injunctive relief and an accounting. The cause of action is, therefore, *ex delicto*, and not *ex contractu*. This Court in *The Fair v. Kohler Die Co.*, 228 U. S. 22; *Healy v. Sea Gull Co.*, 237 U. S. 479, 480, and *Geneva Furniture Co. v. Karpen*, 238 U. S. 254, 260, has decisively settled the jurisdiction of the cause of action in the instant case. See also *Henry v. Dick*, 224 U. S. 1.

**THE SO-CALLED ANTI-TRUST ACTS HAVE NOT THE
REMOTEST APPLICABILITY TO THE FACTS IN THE CASE
AT BAR.**

Judge Augustus N. Hand, in his opinion on the petitioners' motion to dismiss the bill of complaint, held that no provisions of the Anti-Trust Acts affected the matters in issue, saying (Record, p. 26):

"I may say at the outset that if the patentee has such a right under the patent law, there can be no doubt that this Court, and not the State Court, is the proper tribunal to adjudicate the issues between the parties. I also think that no provision of the Sherman Act or Clayton Act affects the matters at issue. The infringement charged is for selling when defendants are alleged to possess nothing more than a non-assignable right to use. The whole dispute is as to the extent of the monopoly granted by the patent. There is no combination shown in restraint of trade or to fix prices, nor any contract substantially lessening competition."

and in the decree, signed by Judge Hand, quoted on p. 15 of Record, the third ground of petitioners' motion invoking the Anti-Trust Acts was denied. As a sufficient reply to petitioners' contention in this connection, we quote from the opinion of this Court in *Standard Sanitary Co. v. United States*, 226 U. S. 20, as follows: "And we shall keep in mind and apply the principle expressed in *E. Bement & Sons v. National Harrow Co.*, 186 U. S. 70, 92, that the Sherman Law 'clearly does not refer to that kind of a restraint of interstate commerce which may arise from reasonable and legal conditions imposed upon the assignee or licensee of a patent by the owner thereof, restricting the terms upon which the article may be used and the price to be demanded therefor. Such a construction of the act, no doubt, was never contemplated by its framers'" (pp. 39-40 of report).

THE OPINION OF COURT OF APPEALS IN CASE AT BAR AS
INTERPRETED LATER BY THE SAME COURT IN THE
MOTION PICTURE CASE. (235 Fed. Rep. 398.)

The following extract from the opinion of the Court of Appeals in the later case, above referred to, interpreting its own opinion in the earlier case. (at bar) is, aside from the reference to the Clayton Act, of informative value in that the words we have italicised call attention to the license as a "use" license, and to the money payment therefor (required to pass to licensee in the first instance, a right of possession of the machine and of permission or license to use it) was an *initial* payment, and fully supporting the allegations of the bill and the argument that the major portion, if not the sole *royalty* to the manufacturing patentee was in the subsequently accruing value to it of the reservations or restrictions recited in the license.

"It was held by this Court in the case of Victor Talking Machine Company v. Straus, 230 Fed. 449, that a license *to use* a patented talking machine upon payment of an *initial* royalty to cover the life of the patent and upon condition that the licensee purchase all sound records to be used with the machine from the licensor was valid, even though the license provided that title to the machine should pass to the licensor upon the expiration of the patent if the terms of the license had been observed. The present (Motion Picture) case differs from that case because here the *title* to the machine at once passed by the sale of the projecting machine . . ." The statute known as the Clayton Act, "was not regarded as applicable either in the District Court, or in this Court, in the case of Victor Talking Machine Co. v. Straus, *supra*, because that case was decided upon a demurrer to the bill upon the face of which no substantial restraint of competition or monopoly in any line of commerce appeared."

PETITIONERS HAD FULL KNOWLEDGE OF THE LICENSE RESTRICTIONS ON THE PATENTED GOODS AND OF THE PORTION OF THE PATENT MONOPOLY RESERVED BY THE MANUFACTURING PATENTEE.

It is repeatedly alleged in the bill, paragraph 24 (Record, p. 13), and in the amended bill, paragraph 23 A (Record, p. 17), paragraph 23 B (Record, p. 18) and paragraph 24 (Record, p. 19), that the petitioners had full knowledge of the facts alleged in the bill, including knowledge of the reserved patent rights and license restrictions on the respondent's patented machines and records, and these facts must be deemed as admitted on demurrer so that there is no question before this Court of lack of sufficient notice or knowledge by the petitioners of the patent rights reserved by the respondent, and for violation of which by petitioners this suit was brought. Under any circumstances, notice of these reserved patent rights was sufficiently given to the petitioners under *Henry v. Dick, supra*; *Wood v. Carpenter*, 101 U. S. 135, 142; *Schauer v. Alterton*, 151 U. S. 607, 622; *American Cotton Tie Co. v. Bullard*, 4 Ban. and A. 520.

THE THREE SUBSTANTIVE RIGHTS, (1) TO MAKE; (2) TO USE; AND (3) TO VEND, UNDER THE PATENT STATUTE, ARE SEGREGABLE.

A patent grant creates, and is in its very nature, a monopoly, but it has none of the odium of a common monopoly; it is neither a grant *ex gratia* nor wrongful in its inception. It is purely a contract, founded on a good consideration; and the statute and judicial interpretations of it so recognize. The consideration given by the patentee is a full disclosure to the public, of the results of his labor and genius, in exchange for a limited term monopoly in it. To qualify the exclusive character of the grant is to unjustly deprive him of

part of the consideration for which he parted with his disclosure. The character of the statutory consideration promised and given to him is thus defined in the latest case on the subject, *Bauer v. O'Donnell*, 229 U. S. 1, the reasoning in which fully supports this respondent's (plaintiff's) position:

"To the inventor, by section 4884, Revised Statutes, there is granted 'the exclusive right to make, *use*, and vend the invention or discovery'. This grant, as defined in *Bloomer v. McQuewan* (14 How. 539, 549), 'consists altogether in the right to exclude everyone from making, *using*, or vending the thing patented'. Thus, there are several substantive rights, and each is the subject of subdivision, so that . . . the patentee may grant only the right to make, and use, or to use only for specific purposes. (*Adams v. Burke*, 17 Wall. 453; *Mitchell v. Hawley*, 16 Wall. 544; *Providence Rubber Co. v. Goodyear*, 9 Wall. 788, 799.) (*Italics in the original opinion.*)"

The patent statutes, as construed in these decisions, impose no limitations on the grant to a patentee which will operate to prevent him keeping it a close monopoly if he sees fit, or separately exercising his segregable exclusive rights, to make, to use and to sell, or limiting the license "to use only for specific purposes" or of charging what he thinks proper by way of tribute for permitted invasion of the monopoly (which is a judicial definition of a non-exclusive patent license) or of contracting for this tribute either in money or by way of conditions on the use, or by both. In short, he is complete master of the monopoly; and may, for any permitted invasion of it, impose any conditions "not definitely illegal." *Bement v. Harrow Co.*, 186 U. S. 70, 91.

Let us consider and apply these principles, from a practical point of view, to determine the status under the law of a patentee who, making and marketing

his patented machines (the utility value of which reside in their use), seeks to exercise his segregable exclusive right "to use" conferred by the patent grant to him, and to so license the patented machines to the public by such instrument of writing or like means as may lawfully reserve his property interest in the machine, as the physical embodiment of the patented invention, in preservation of his exclusive right "to use" under the patent grant, during the period of the monopoly under such grant.

This Court said in *Henry v. Dick*, 224 U. S. 1, based on a series of American and English decisions cited therein (and we do not understand it to be controverted by anything said in the dissenting opinion) that the decisions of the Federal Courts have long recognized

"the distinction between the property right in the materials composing a patented machine, and the right to use for the purpose and in the manner pointed out by the patent."

And furthermore (229 U. S. 1, 17) that

"The right to manufacture, the right to sell, and the right to use are each substantive rights, and may be granted or conferred separately by the patentee,"

And also that (224 U. S. 1, 25)

"If that reserved control of use of the machine be violated, the patent is thereby invaded."

And this because (see p. 14 of *Bauer v. O'Donnell*, 229 U. S., which followed and approved the principles of *Henry v. Dick*, *supra*):

"An inventor has not only the exclusive right to make and vend his invention or discovery, but he has the like right to use it, and when

a case comes fairly within the grant of the right to use, that use should be protected by all means properly within the scope of the statute."

There is no collision between the rule against restrictions upon the alienation or use of chattels not made under the protection of a patent and the right of the patentee through his control over his invention. The distinction is pointed out by Mr. Justice Hughes in *Miles Medical Co. v. Park*, 220 U. S. 373 (401). The differentiation between these two classes of cases is based on "the distinction between the property right in the materials composing a patented machine, and the right to use for the purpose and in the manner pointed out in the patent." The latter may be and often is the greater element of value, as remarked in an early opinion by Judge Lowell in *Porter Needle Co. v. National Needle Co.*, 17 Fed. 536, wherein he said:

"But the mere value of a patented machine is often, . . . insignificant in comparison with the value of its use; and the courts have permitted a *severance of ownership and right of use*, if the patentee has chosen to dissever them, and if his intent is not doubtful." (*Italics ours.*)

In the case at bar, the restriction or limitation is effected by a license in writing emanating directly from and over the signature of the patentee manufacturer, specific to and identifying the machine or sound record which it accompanies or to which it is attached; and this license recites (1) a permission under the patents, to use, and then only in a certain way, the accompanying specific machine or record; (2) the qualified title to or right of possession of the physical thing, which the patentee, being the maker and owner thereof, intends to pass to the licensee, and (3) the terms (as to initial or cash royalty payment) on which alone the patentee manufacturer is willing that such

right of possession of the physical thing plus the patent license to use it shall pass to such licensee.

Much ado is made in petitioners' brief that such possessor and licensee does not obtain the right in question directly from the patentee manufacturer, but from a "licensed dealer," who obtains it from a "licensed distributor," who in turn has obtained it from the patentee manufacturer. Such contention is based only on an imaginary state of facts having no support in the record and injected into the brief by way of implication and argument above assertion; and hence is to be entirely disregarded (the case being here on demurrer to the bill), if the record discloses, as it does, that the averments in the bill are that both the "licensed distributor" and "licensed dealer" are merely the special agents of the plaintiff to effect the license by making delivery thereof and of the machine, to the ultimate licensee for use, and that by the express contracts whereby they are empowered to act as "licensed distributors" and "licensed dealers" respectively they are given no license to use the machine except for "demonstration" purposes, and no right of property in or other authority over the physical thing and the specific license to use it, save to make *delivery* of machine and limited use license, to any member of the public who, through their special agency, may become the plaintiff's licensee for use, and who has as a preliminary condition, paid to such licensed distributing agent the initial or cash portion of the license price or royalty.

We must rid our minds, in considering this subject, of the law relating to the illegality of conditions attempted to be imposed on the re-sale of unpatented chattels, as, for example, in *Miles v. Park*, 220 U. S. 375; nor need we consider whether or not the transaction is a "conditional sale" within the technical common law definition of that term, found in many of

the books, because, in the case at bar, there was no "absolute and unconditional sale (which) operates to pass the patented thing outside the boundaries of the patent," under the well settled rule; *or indeed any sale at all*. We are dealing with patented articles, as to which the manufacturing patentee has two distinct rights (1) the right of property under the common law, in the physical thing by which the invention is exemplified or embodied, and (2) the exclusive and segregable right under the patent law, to use it, either unreservedly as to time, place or other conditions, or to limit such use by his licensee. In ascertaining which of these segregable rights have been exercised by a patentee *who makes the machine and licenses it for use only*, the fundamental distinction between the two property rights in the patentee, under the common law, to the physical thing, and under the statute law to the incorporeal exclusive right to use (not the mere physical thing but) the invention which it embodies, must not be lost sight of in determining what rights of property a licensee from the patentee acquires; in respect of its effect, if any, on the *title* to and right of property in the machine, as a patented machine. The petitioners in their brief, ignore this distinction, in their assertion that (pp. 26 and 27) "in the sense that the 'conditional sale' or 'qualified sale,' is a condition upon or qualification of the *use* of the instrument, petitioners do not quarrel with those terms as used, either in the license agreement or in the argument below. In the sense, however, that they affect the *title* or right of possession to the instruments in question, petitioners do not acquiesce."; counsel then proceeds to argue (p. 27) that a "'conditional sale' affecting the *title* is as much the exercise of the *exclusive right to vend* as an 'unconditional sale' so far as the breaches of the conditions are concerned"; this method of reasoning

being with the obvious purpose of reaching a conclusion, as a logical deduction, that there can be no such thing as a qualified sale and limited license to use, of a patented article, which could avoid operating on the *title* to the physical thing, and hence could legally be anything else than an exercise by the patentee of his separable exclusive right "to vend with the implications arising therefrom." In other words, the petitioners are re-arguing over again the same question disposed of by this Court in *Henry v. Dick*, *supra*, and *Bauer v. O'Donnell*, *supra*, from the former of which we quote (pp. 17 and 18 of report), as follows:

"That a patentee may effectually restrict the time, place or manner of using a patented machine, so that a prohibited use will constitute an infringement of the patent, is fully conceded. Thus, in the printed brief, counsel for defendants say: 'Aside from such special contracts, an agreement that the article shall be used only in a certain manner, can be made only by way of lease of the article, terminating the lease upon condition broken, or by way of conditional sale, by breach of which the title reverts to the seller.' In either such case, counsel say, 'a use of the article in violation of the condition may terminate the lease or sale of the article (which) would become the property of the patentee again, and a use thereof by the lessee or purchaser may constitute a violation of the patent, for which an infringement may lie. . . He cannot make a sale with the condition attached that the article shall be used or disposed of in a certain manner, leaving the title, however, in the purchaser in case of a breach of the condition.'

"The books abound in cases upholding the right of a patentee owner of a machine to license another to use it subject to any qualification in respect of time, place, manner or purpose of use which the licensee agrees to accept. Any use in excess of the license would obviously be an infringing use and the license would be no defense. *Robinson on Patents*, Vol. 3, §§ 915, 916 and notes.

This is so elementary we shall not stop to cite cases.

"The contention is not that a patentee may not permit the use of a patented thing with such qualifications as he sees fit to impose, and that a prohibited use will be an infringing one, but that he can only keep the article within the control of the patent by retaining the *title*."

The decision referred to then points out, inferentially, if not expressly, that the license restrictions qualified not only the otherwise complete right of *use* of the machine but of the otherwise unlimited title to and right of possession of the machine itself, considering the latter as the physical embodiment of the invention patented and licensed as distinguished from the mere materials of which it is composed. Indeed in the later of the two cases, i. e., *Bauer v. O'Donnell*, *supra*, this Court so interpreted its decision in the earlier case of *Henry v. Dick*, *supra*, by the statement that "It was under the right to *use* that the license notice in question was sustained, . . . While the title was transferred, it was a *qualified title*." Hence in the case at bar, the plaintiff below correctly contended that the terms "conditional," "unconditional" and "qualified" related as well to the *title* to the physical thing as to the patent license to use it. However, in the case at bar, there was no *sale*, either conditional or unconditional; and moreover the defendants, petitioners, never acquired either title or right of possession, and cannot set up the license affixed to the machine (whether valid or invalid as a limited use license) in justification of their infringement.

PRINCIPLES OF LAW APPLIED IN THE MIMEOGRAPH CASE.

Recognizing as a fundamental proposition "the distinction between the property right in the materials composing a patented machine, and the right to use

for the purpose and in the manner pointed out in the patent," and that these two property rights—one corporeal and the other incorporeal—are "separable rights," which may be so exercised in a single transaction by a patentee who manufactures and specifically licenses, for use, the patented article; and that a mere license passes no interest in the monopoly but is a mere permission to infringe to the extent given by the license, and measures the extent of the licensee's rights not only in the physical thing but in the right reserved to the patentee to control its possession, use and assignability, the opinion proceeds (bottom of p. 24):

"The property right in a patented machine may pass to a purchaser with no right of use or with only the right to use in a specified way or at a specified place or for a specified purpose. The unlimited right of exclusive use which is possessed by and guaranteed to the patentee will be granted if the sale be unconditional. But if the right of use be confined by specific restriction, the use not permitted is necessarily reserved to the patentee. If that reserved control of use of the machine be violated, the patent is thereby invaded. This right to sever ownership and use is deducible from the very nature of a patent monopoly and is recognized in the cases."

Reciting and construing the

"'license restriction,' the opinion holds (p. 25), 'That here the patentee did not intend to sell the machine made by it subject to an unrestricted use is of course undeniable from the words upon the machine . . .'

"The meaning and purpose of this restriction was that while the property in the machine was to pass to the purchaser, the right to use the invention was restricted to use with other articles required in its practical application, supplied by the patentee."

Proceeding, the opinion puts the question as to "the kind of limitation which may lawfully be imposed upon a purchaser," answering it by stating as a preliminary requirement that "the purchaser must have notice that he buys with only a qualified right of use" (p. 26), and then adding the further question "Where, then, is the line between a lawful and an unlawful qualification upon the use?" answering it by remarking that as this is a question of "statutory construction," the patent statute is to be construed, not with a "narrow scrutiny" but as creating a "monopoly granted to subserve a broad public policy, by which large ends are to be attained, and, therefore, to be construed so as to give effect to a wise and beneficial purpose; that we must neither transcend the statute nor cut down its clear meaning," citing the definition of the patent privilege, as given by Chief Justice Marshall in *Grant v. Raymond*, 6 Peters 218 (241).

Determination of the question as to "the kind of limitation which may lawfully be imposed upon a purchaser," or, stated another way: "the line between a lawful and an unlawful qualification upon the use," obviously depended in that particular case, upon the application of the law as stated by Judge Lowell in *Porter Needle Co. v. National Needle Co.*, 17 Fed. Rep. 536, that "the Courts have permitted a severance of ownership and right of use, if the patentee has chosen to dis sever them and if his intent is not doubtful"; or, to state the proposition in another way, by a statement of the argument in the *Dick* case (see p. 18 of report), wherein the defendant while not denying that a patentee may lawfully license "the use of a patented thing and with such qualifications as to use as he may see fit to impose," asserted that he can only keep the "article within the control of the patent by retaining the *title*," and hence that "*any* transfer of

the patentee's *property* right in a patented machine" has the effect to free the article from the domain of the patent monopoly.

The decision, however, properly holds in effect that such argument overlooks the fact that the patented article so sold by a patentee exemplifies two severable rights of property, one arising under the common law, to the physical thing as such, and the other an incorporeal property right in it as the embodiment of a patented invention the exclusive right to use which belongs to the *same* owner. Hence a sale of the physical thing with a qualification of the right to use it, by a patentee or licensee possessing *both* rights of property, operates not alone as an exercise of the right "to use," conferred by the patent grant, but, in the very nature of things, operates to qualify the title and free right of disposition, of the physical thing which is an exemplification or embodiment of the *invention* so *specifically* licensed. If the transaction be such that, to use the language of Judge Lowell quoted, it is clear "the patentee has chosen to dis sever the ownership and right of use, and that his intent is not doubtful," then (as found by the majority opinion in the Dick case) it was "the kind of limitation which may lawfully be imposed (by a patentee) upon a purchaser" of his patented machine; and a "lawful qualification" upon the use thereof, binding upon the licensee and his assigns with notice.

COMMENTS ON OPINIONS IN HENRY V. DICK.

It does not seem possible to us that an intelligent assimilation of the principles enunciated and applied in the Mimeograph and Sanatogen cases could result in finding any conflict between them; yet, it must be admitted, that such opinion exists with some members of the bar and of the bench, for example, in the memorandum opinion by Judge Hough in the Motion Picture

case, now in this court on certiorari, he said: "Referring to the decisions, it was my opinion that *Bauer v. O'Donnell* is so inconsistent with *Dick v. Henry* that the latter case can no longer be considered as stating the law"; but later in the same opinion he said: "That such attempted severance between corporeal and incorporeal property cannot be lawfully maintained under the patent laws, nor asserted in an action on the patent"—a mistaken view, we contend, and wholly irreconcilable with a long line of prior decisions, and which may, as respects his views as well as others, explain his conclusion first quoted above.

In the dissenting opinion in *Henry v. Dick*, the learned Chief Justice does not use any language which would warrant the belief that his dissent was founded on any such theory, but rather on the principal ground that

"The claim of the patent, however, did not embrace the ink or other materials used in working the machine, nor were they covered by independent patents." (P. 50.)

In the case at bar, however, both the machines and records are the subject of independent patents, sued upon in the bill; indeed, Patent No. 814,786 in suit points out the requirement for the use with the machine of the particular type of respondents' patented sound record. See paragraph 17 of the bill (Rec. p. 7).

In the same opinion, the reasoning on which the dissent is founded, is supported by reference to the decisions in *Goodyear Rubber Case*, 9 Wallace 788, and *Mitchell v. Hawley*, 16 Wall. 544; in the former of which is the following quoted passage "the patent was held to be infringed because a right of use of the invention not granted to the licensee . . . had been invaded by the defendants"; a case which exemplifies the difference between an unqualified sale of a patented machine with a restriction as to the use of unpatented

materials with it, and a qualified sale or lease of a patented machine and a limited license to use it, as clearly stated in a sentence in the dissenting opinion referred to (pp. 64-65 of report), as follows:

“Stating it to be unquestioned that a patentee who had absolutely parted with the title to the machine and with the use which the patent protected must be understood to have parted with all his exclusive right, and hence ceased to have any interest in the machine protected by the patent law, the Court maintained the contentions of the complainant, on the ground that the rule just stated did not apply where the patentee did not grant the entire right covered by the patent, but retained a part thereof in himself, and therefore a violation of such reserved right was in conflict with a right still protected by the patent and an infringement of the patent. The difference between the rule applied in that case and the doctrine of the many other cases which we have cited and which also exists between the controversy presented in *Mitchell v. Hawley* and the one here under consideration was simply as follows: (a) That which exists between the conveyance of all one's rights covered by a patent and a transfer of only a part of such rights; (b) that which obtains between the ability of a patentee to protect the right which he enjoys under the patent law from infringement and his want of power on parting with all his rights under the patent to contract so as to secure rights never embraced in his patent, and to bring such newly acquired contract rights under the protection of the patent law.”

FACTS IN *BAUER V. O'DONNELL*, AND THE PRINCIPLES OF LAW APPLIED THERETO.

The plaintiff was the manufacturer and owner of the patent privileges for a medicinal preparation, called Sanatogen, which it marketed in the usual way, through jobbers and dealers, without other contractual

conditions than such as might be implied from an attempted license restriction which it printed or otherwise impressed on the paper wrapper or container of the article, by which it was licensed "for sale and use at a price not less than one dollar" per package. The defendant was a dealer in such goods, who had bought the article from a jobber who had bought it from the plaintiff, who had no interest in any sales of it after it passed from him to the jobber, and no right to any royalty thereon or to participation in the profits thereof; the packages having been sold by each party in turn with as full and complete title as any article could have been sold in the open market, excepting only the attempt to limit the sale or use by a prohibitive notice against a *re-sale* at less than one dollar.

On the facts in this case, stated *supra*, it was briefly distinguished from the Mimeograph case, as to the law applicable thereto, in the following sentences (p. 16 of report is 229 U. S.):

"There is no showing of a *qualified* sale for less than value for limited use with other articles only, as was shown in the *Dick Case*. There was no transfer of a limited right *to use* this invention," (Italics ours.)

On the preceeding page 14 (after pointing out that the patent statute gives a patentee three distinct exclusive rights; and exclusive privileges which are segregable and may be separately exercised) occurs the following sentence: "An inventor has not only the exclusive right *to make and vend* his invention or discovery, but he has the like right *to use* it; and when a case comes fairly within the grant of the right *to use*, that *use* should be protected by all means properly within the scope of the statute." (Italics ours.)

It is too plain for dispute that the majority opinion in the Sanatogen case, although it held that the facts were such as to require the particular transaction to be construed as an exercise of the patentee's statutory

exclusive right "to vend," nevertheless held that when a case is presented which involves a transaction which is manifestly and "fairly" an exercise by the manufacturing patentee of his separable exclusive right "to use," manifested by limitations of such use properly brought home to the licensee and his assigns of the patented thing so licensed, "that use (i. e., that separable exclusive right in the patentee, to use) should be protected by all means properly within the scope of the statute." If the decision in the Sanatogen case does not mean that, then the statutory grant of the segregable right "to use" is rendered of no value and practically eliminated, and the sentence above quoted from page 14 of the report is without force or application.

The petitioners contend in their brief that the case at bar is paralleled by the decision of this Court in *Bauer v. O'Donnell*, 229 U. S. 1, as to the facts, and controlled as to the conclusions of law founded thereon. This is distinctly not so. No one can read the bill of complaint in the case at bar, to ascertain the cause of action presented, and, comparing it with the report in *Bauer v. O'Donnell*, supra, assert that they present the same questions in whole or in part. This is made clear if we see what were the facts and what was decided in *Bauer v. O'Donnell*, supra, wherein the question of law certified to this Court and which this tribunal answered in the negative, was stated in the opinion in the following words: "May a patentee by notice limit the price at which *future retail sales* of the patented article may be made, such article being in the hands of a retailer by *purchase* from a jobber who *has paid* to the agent of the patentee *the full price asked for the article sold?*" (Italics ours.)

It will be observed, by reference to the certificate that the facts, which controlled the application of the appropriate principles of patent law applicable thereto, were those italicized above. There

is not a word in the certificate, or in the facts on which the question certified was based, that required the application of the patentees statutory separable exclusive right "to use," but solely with the character of and privileges appurtenant to his exclusive right "to vend." The decision held merely that a patentee (like the owner of a copyright) could not annex in the manner stated a *re-sale* price condition to the exercise of his right "to vend," where the circumstances attending the sale by the patentee manifested a clear intent to part with his whole title to the article as a patented article, hence removing it effectually and forever from the domain of the patent monopoly. This is very clear from the decision of this court, in which occurs the following passages (p. 16 of report): "But in view of the facts certified in this case, as to what took place concerning the article in question, it is a perversion of terms to call the transaction in any sense a license to *use* the invention. . . . The packages were *sold* with as *full and complete* title as any article could have when sold in the open market, . . . In other words, the *title transferred was full and complete*, with an attempt to reserve the right to fix the price at which *subsequent sales* could be made. There is *no showing* of a *qualified sale*. . . . There was *no transfer of a limited right to use*. . . ." (Italics ours.)

The petitioners' assertion of error in the decree complained of is founded on the erroneous theory that the transaction whereby the defendants (petitioners) obtained possession of each of the patented machines and sound records, was an *absolute sale* of the patented article, implying thereby an exercise of the patentee's exclusive right "to vend," and hence that *Bauer v. O'Donnell*, 229 U. S. 1, and kindred cases applied. This theory is founded on a misconception of the facts averred in the bill, and in disregard of

the controlling fact that the title to each machine as a physical thing and the limited license under the patents, to use it, specific to each machine, proceeds *directly from plaintiff patentee* and not from the intermediate specially licensed dealer who is merely the distributing medium deriving his compensation, by way of discount or allowance out of the initial license price required to be paid by the licensee, and with no title to the article and no authority except to make "delivery" of the machine and limited license to use it on payment of the full initial license royalty. Hence the petitioners' contention that the ultimate possessor, who is the *direct* licensee of the plaintiff, *quoad* the specific machine so delivered and so specifically licensed, is a stranger to the plaintiff, and that the sole purpose of the transaction is to control the so-called "*re-sale*" price on the theory that the *licensed distributor* is the real purchaser, with full title, and from whom the licensed user (such as the petitioner's here) derives such title, is wholly unwarranted on the facts disclosed on the face of the bill. Unless the petitioners can so construe the license (under which alone they can derive any lawful right to possess or use or part with the machine) their whole argument absolutely falls.

THE EQUITIES OF RESPONDENT'S POSITION.

As set forth in the bill herein, the plaintiff, on August 1, 1913, adopted its present license system of marketing its patented machines and sound records. In taking this step it took a great commercial hazard. It had no means of knowing whether the public would continue to demand its product under the *use* conditions of the license attached thereto. It was not improbable that the public would refuse to demand respondent's patented product under such conditions and limitations of the license. But nevertheless respond-

ent took the hazard; and the fact that the public still demands its patented product under the limitations of the license is a striking recognition not only of the well-known excellence and high standardization of respondent's patented products, but of the public's acquiescence in respondent's licensing system of marketing its patented goods.

The petitioners are free to deal in competing talking machines and records, of other manufacturers. Both they and the public are free to decline the respondent's offer to license its patented machines and records; but if they prefer to acquire them, then it must be only on the terms which respondent, under its lawful grant, has seen fit to impose.

If respondent, notwithstanding the license conditions and limitations on the right of possession and right of use of the patented machines and records, is able to carry on a large business in patented goods which not only the public, but these petitioners especially seem desirous of having, it can be so only because of the superiority and merit of its patented products, and it is entitled to the legitimate benefits therefrom which it believes can be best obtained by the continued maintenance of its present license system recited in the bill, and which the effort of the petitioners is to overthrow and have this court declare illegal. We respectfully contend it cannot do so consistently with its prior decisions and in the light of the principles enumerated in them.

The decree below should be affirmed.

Respectfully submitted,

FREDERICK A. BLOUNT,

HECTOR T. FENTON,

Counsel for Respondent.

December 30, 1916.

Supreme Court of the United States

October Term, 1904

THE UNITED STATES OF AMERICA
vs.
JOHN D. RYAN
et al.

THE PEOPLE OF THE STATE OF NEW YORK
vs.

JOHN D. RYAN
et al.

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Supreme Court of the United States.

October Term, 1915. No. 840.

JESSE I. STRAUS, PERCY S. STRAUS
and HERBERT N. STRAUS, Indi-
vidually and as Copartners
Trading as R. H. MACY & Co.,
Petitioners,

v.

VICTOR TALKING MACHINE
COMPANY,
Respondent.

Sur Petition for
Writ of Certiorari
to U. S. Circuit
Court of Appeals
for the Second
Circuit.

BRIEF FOR RESPONDENT.

THE DECRETAL ORDER COMPLAINED OF IS MERELY AN ORDER ENTERED AT AN INTERLOCUTORY STAGE OF THE PROCEEDINGS, AND NOT USUALLY REVIEWABLE ON CERTIORARI, EXCEPT UNDER UNUSUAL CIRCUMSTANCES, WHICH ARE NOT PRESENT IN CASE AT BAR.

The petitioners complain of a decree of the Court of Appeals reversing the District Court which had dismissed plaintiff's bill on motion to dismiss, under equity rule 29, in the nature of a demurrer. If the bill discloses a cause of action, no argument based on extraneous facts, requiring proofs or strained deductions from facts pleaded, can avail the defendants, petitioners, at this stage of the case. They must plead and prove them, and cannot assume their existence on a demurrer.

Under Equity Rule 29 a motion to dismiss takes the place of a demurrer, and the rule governing demurrers applies—that only matters appearing on the face of the bill can be reached by a motion to dismiss—*Adler v. Williams*, 211 Fed. 530; and “it has been the practice to overrule a demurrer, unless it is founded on an absolutely clear proposition that, taking the allegations to be true, the bill must be dismissed at the hearing”—*Kansas v. Colorado*, 185 U. S. 125 (144) and *Ralston v. National*, 222 Fed. 590. If its averments, as a whole, are sufficient to present issues of facts, the affirmative determination of which would entitle the plaintiff to the relief prayed, in whole or in part, of course the demurring motion necessarily falls. And this is true even if the question raised by the pleading is doubtful. *Ralston v. National*, *supra*, p. 592.

Aside from that objection, the petition presents no ground for argumentatively asserting conflict of decision with courts of co-ordinate jurisdiction on the same question of law or fact; and it presents no disputable question of jurisdiction either of parties or subject matter. Moreover the decree complained of is merely an order which requires defendants to answer the bill on the merits, entered at an interlocutory stage of the proceedings. Under such conditions there is no warrant for allowing a writ of certiorari to review it here at this stage of the case.

“Certainly it is a power which should be exercised sparingly and with great caution, and only in cases of peculiar gravity and general importance, or in order to secure uniformity of decision.” *American Constr. Co. v. Jacksonville R. R.*, 148 U. S. 372. And, though this Court has power to issue certiorari to bring up for review the proceedings below, at any stage thereof, it “would seldom be exercised before final judgment in the Circuit Court of Appeals, and very rarely, indeed, before the case was ready for decision upon the merits

in that court". . . . hence it "should not issue a writ of certiorari to review a decree of the Circuit Court of Appeals on appeal from an interlocutory order, unless it is necessary to prevent extraordinary inconvenience and embarrassment in the conduct of the cause." *American Constr. Co. v. Jacksonville, supra*. No such condition exists, or is alleged to exist, in the case at bar.

While it is true that in the case cited by petitioner—*Equitable Co. v. Brown*, 213 U. S. 25—a certiorari was granted to review a decision sustaining a demurrer to a bill in equity, it is very clear from the report that the case was one affecting the interests of a "half million of policyholders", that the bill presented prayers of very doubtful equity, under any circumstances; that it prayed for a receiver to administer assets "reaching into hundreds of millions of dollars in amount"; and it is also clear from the opinion that the case went off and the decree below reversed on lack of jurisdiction in equity of the subject matter of the cause of action and relief prayed in the bill. Not a single one of these circumstances exist in the case at bar.

THE CONTENTION OF THE PETITIONERS, AS A GROUND FOR THE GRANTING OF THE PETITION, THAT THERE IS CONFLICT OF DECISIONS, IS NOT TRUE IN POINT OF FACT.

That a cause of action such as stated in the bill of complaint is valid has been frequently established by the decisions of this Court; and the opinion of the Circuit Court of Appeals complained of in the petition is not in conflict with any decision of this Court, nor any other decision cited, but is in direct accord with this Court's prior decisions. The two District Court cases of *Ford Motor Co. v. Union Motor Sales Co.*, 225 Fed. Rep. 373, and *United States v. Kellogg Toasted Corn*

Flakes Co., 222 Fed. Rep. 725, cited in the petition and relied upon by petitioners to support an allegation of conflict of decisions, involved *sales* of patented articles; while in the case at bar, as unqualifiedly found by the Circuit Court of Appeals, this respondent did not *sell* its patented articles at all, but licensed them for *use* only and with appropriate limitations on the title to the physical embodiment of the invention as well.

CASE STATED BY THE BILL IS MERELY ONE CLASS OF ORDINARY PATENT LITIGATION AND PRESENTS NO COMPLEX NOR UNUSUAL QUESTION, NOR ANY AFFECTING EITHER PUBLIC OR GENERAL INTEREST.

This is an ordinary patent infringement case, which differs only from most of such cases in that instead of the simple and usual form of such torts the defendants below have covertly obtained possession of a number of the patented machines, some of which they have used or sold in excess of the terms of the license affixed to and specific to each machine, and in violation of the conditions thereof, and threatened to dispose of the remainder in like manner, and moreover, as charged in the bill, have aggravated the tort by an averred purpose to destroy, by their acts, the plaintiff's system of marketing its patented machines. The plaintiff is the patentee and sole manufacturer of its talking machines and sound records used therewith; it claims no monopoly of a generic form of either; but it does claim to make the most improved form of each, and also that the intrinsic utility of each is dependent upon its use with the other, hence to preserve that unity of use, and the high standard of quality of the manufacture, as also to obtain a fair tribute or royalty for its patent monopoly, it has executed and attached to each machine a specific contract of license, providing therein for the full payment of a certain advance royalty as a condition precedent to the passing of any

right to possession of the machine and license right to use it, and also incorporating therein certain conditions subsequent governing the use of the patented machine with the patented record, and the latter with the former; hence the right to possession of the physical thing, together with the limited license to use it, under the patents, passes to the licensee only on compliance with the condition precedent aforesaid, i. e., the full advance payment of the license price stated in each specific contract, the continued right of possession and license so conveyed being subject to divestiture on breach of the conditions subsequent. In fact had there been, in the Sanatogen case, a "*qualified sale*," accompanied by a *limited right to use*, [to quote the words of this Court, pointing out distinguishing factors which did *not* exist in that case; see page 16 of report, 229 U. S.], the decision of that case must necessarily have been different.

The case therefore presents no complex question; nor any matter of public interest, nor one affecting the rights of any person but the private parties to the litigation. The argumentative assertion to the contrary, in petitioner's brief, is not justified by anything apparent in the record, is wholly *ex gratia*, and entirely without warrant.

DECREE COMPLAINED OF DOES NOT CONFLICT IN PRINCIPLE WITH BAUER V. O'DONNELL, 229 U. S. 1.

The petitioners' assertion of error in the decree complained of is, as appears from page 5, folios 14 and 15 of petition, and the synopsis prefacing the same, founded on the erroneous theory that the transaction whereby the defendants obtained possession of each of the patented machines and sound records, was an absolute *sale* of the patented article, implying thereby an exercise of the patentee's exclusive right "*to vend*," and hence that Bauer v. O'Donnell, 229 U. S. 1, and kindred cases applied. This theory is founded

on a misconception of the facts averred in the bill, and in disregard of the controlling fact that the title to each machine as a physical thing and the limited license under the patents, to use it, specific to each machine, proceeds *directly from plaintiff patentee* and not from the intermediate specially licensed dealer who is merely the distributing medium deriving his compensation, by way of discount or commission out of the license price contracted to be paid to the plaintiff by the licensee, and with no title to the article and no authority except to make "delivery" of the machine and limited license to use it on payment of the full license royalty price. Hence the petitioners' contention that the ultimate possessor, who is the *direct* licensee of the plaintiff, *quoad* the specific machine so delivered and so specifically licensed, is a stranger to the plaintiff, and that the sole purpose of the transaction is to control the so-called "selling" price on the theory that the distributor is the real purchaser with full title, and from whom the licensed user (such as the defendant here) derives such title, is wholly unwarranted on the facts disclosed on the face of the bill. Unless the petitioners can so construe the license contract (under which alone they can derive any lawful right to possess or use the machine) their whole argument absolutely falls.

The petitioners contend in their brief that the case at bar is paralleled by the decision of this Court in *Bauer v. O'Donnell*, 229 U. S. 1, as to the facts and controlled as to the conclusions of law founded thereon. This is distinctly not so. No one can read the bill of complaint in the case at bar, to ascertain the cause of action presented, and, comparing it with the report in *Bauer v. O'Donnell*, *supra*, assert that they present the same questions in whole or in part.

Let us now see what was decided in *Bauer v. O'Donnell*, *supra*, wherein the question of law certified to this Court and which this tribunal answered in the

negative, was stated in the opinion in the following words:

"May a patentee by notice limit the price at which *future retail sales* of the patented article may be made, such article being in the hands of a retailer by *purchase* from a jobber who *has paid* to the agent of the patentee *the full price asked for the article sold?*" (Italics ours.)

It will be observed, by reference to the opinion, that the facts stated in the certificate, which controlled the decision, were those italicized above. There is not a word in the certificate, or in the facts considered by this Court, that had to do with any definition of a patentee's separable exclusive rights "to make" or "to use", but solely with the character of and privileges appurtenant to his exclusive right "to vend". The decision held merely that a patentee (like the owner of a copyright) could not annex a *resale* price condition to the exercise of his right "to vend", where the sale by the patentee was under circumstances manifesting a clear intent to part with his whole title to the article. This is very clear from the decision in which occur the following passages (p. 16 of report):

"But in view of the facts certified in this case, as to what took place concerning the article in question, it is a perversion of terms to call the transaction in any sense a license to *use* the invention. . . . The packages were *sold* with as *full and complete title* as any article could have when sold in the open market, . . . In other words, the *title transferred was full and complete*, with an attempt to reserve the right to fix the price at which *subsequent sales* could be made. There is *no showing* of a *qualified sale*. . . . There was *no transfer of a limited right to use*. . . ." (Italics ours.)

To emphasize the distinction between the patentee's right to annex restrictions in an exercise of his

exclusive right "to use" (as distinguished from his *exclusive* right "to vend") this Court was careful to point out, in deciding the case to call attention by comparison with what the decision would necessarily have been under a state of facts which comprised the converse of those last stated and italicized above, and said (p. 14 of report):

"An inventor has not only the exclusive right to make and vend his invention or discovery, but he has the like right to use it; and when a case comes fairly within the grant of the *right to use*, that use should be protected by all means properly within the scope of the statute." (Italics ours.)

In *Bauer v. O'Donnell*, supra, the restriction (which was as to re-selling price only) was held invalid and inoperative, merely because it was an unconditional sale by the patentee coupled with an intentionally full exercise of his exclusive right "to vend"; an act which, by all the authorities for many years past, operated not only to pass an unqualified title to the article embodying the invention, but to the right to use it fully, in other words took it forever out of the domain of the monopoly. This Court nevertheless said that where the contract of license manifested a clear intent on the part of the patentee to pass only a *conditional* or *qualified* title to the patented machine accompanied by an exercise of his monopoly right "to use", under reasonable and appropriate conditions and restrictions annexed thereto, that it would be upheld if it were "fairly within the grant of the right to use".

In considering the matter under discussion, we should keep in mind the following definitions heretofore made by this Court:

(a) That the statutory patent grant consists altogether in the right to exclude everyone from making, using or vending the thing patented, and that these are

several, substantive and segregable rights, and may be so exercised. *Adams v. Burke*, 17 Wall. 453; *Mitchell v. Hawley*, 16 Wall. 544; *Providence R. Co. v. Goodyear*, 9 Wall. 788; all cited in *Bauer v. O'Donnell*, *supra*.

(b) The distinction between the property right in the materials composing a patented machine, and the right to use it for the purpose and in the manner pointed out in the patent is well recognized. We cannot ignore this distinction, nor that these two property rights are separable rights, *Henry v. Dick*, 224 U. S. 1, wherein this Court said (p. 25 of report):

"If that reserved control of use of the machine be violated, the patent is thereby invaded. This right to sever ownership and use is deducible from the nature of a patent monopoly and is recognized in the cases."

An early opinion by Judge Lowell in *Porter Needle Co. v. National Needle Co.*, 17 Fed. 536, is in point:

"But the mere value of a patented machine is often, . . . insignificant in comparison with the value of its use; and the courts have permitted a *severance of ownership and right of use*, if the patentee has chosen to dissever them, and if his intent is not doubtful." (Italics ours.)

In *Sawin v. Gould*, 1 Gall. 485, Mr. Justice Story, as far back as 1813, recognized the distinction.

Notable instances and illustrations in which this principle has been applied are shown by the *Cotton-Tie Bale* cases, 106 U. S. 89 and Fed. Cases No. 294; also *National Phonograph Co. v. Schlegel* (C. C. A.), 128 Fed. 733, wherein the Court of Appeals said:

"But to the extent that the sale is subject to any restriction upon the use or future sale, the article has not been released from the monopoly, but is within its limits and, as against all who have

notice of the restriction, is subject to the control of whoever retains the monopoly. This results from the fact that the monopoly is a substantial property right conferred by law as an inducement or stimulus to useful invention and discovery, and that it rests with the owner to say what part of this property he will reserve to himself and what part he will transfer to others, and upon what terms he will make the transfer."

The reasoning of these cases is fully supported by several English patent decisions, of which we particularly direct attention to *Incandescent Gas Light Co. v. Cantelo*, and *Same v. Brogden*, reported respectively in 12 Rep. Pat. Cas. 262 and 16 Rep. Pat. Cas. 179, also in *Nat. Phono. Co. v. Menck*, 27 Times, L. R. 239, which was an appeal to the Privy Council, and wherein Justice Shaw said:

"The general doctrine of absolute freedom of disposal of chattels of an ordinary kind is, in the case of patented chattels, subject to the restriction that the person purchasing them, and in the knowledge of the conditions attached by the patentee, which knowledge is clearly brought home to himself at the time of sale, shall be bound by that knowledge and accept the situation of ownership subject to the limitations. These limitations are merely the respect paid and the effect given to those conditions of transfer of the patented article which the law, laid down by statute, gave the original patentee a power to impose."

Some of the cases use the expression—re conditions which a patentee may fairly impose in a license—that they are valid if "not in their very nature illegal" or if they be "appropriate and reasonable conditions". *Bement v. Harrow Co.*, 186 U. S. 70.

In the case at bar, the plaintiff avers in its bill (1) that the patented machine is especially adapted for use with the patented sound record, and the latter with

the former; (2) that the great utility of each is dependent on the other; (3) that the primary value and benefit of each, *to the public*, and incidentally to the manufacturing patentee, is the *conjoint* use of them; and (4) that, of right, it has fixed, by contract of license specific to each specimen, a license price or royalty which includes a specimen of and limited right to possession of the physical thing licensed, on the full payment of a certain fixed royalty as a condition precedent to the passing of either property right; reciting (5) that it thereby derives its just benefit of its patent monopoly because the consideration given by the licensee is, in part, a cash payment which covers no more than cost and minimum manufacturer's profit, and nothing for the patent monopoly, which however the manufacturing patentee secures the benefit of (*a*) by the increased output of machines and records resulting from the attractively low cash portion of the royalty, and (*b*) by a valid exercise of the segregable monopoly right "to use", by limiting the use of the patented machine to use of the patented sound record with it, and the use of sound record with the machine; manifestly (*c*) increasing the output of both, and (*d*) to the benefit and advantage of the public in obtaining and enjoying the full utility of both "at a minimum of cost".

If these are "appropriate and reasonable conditions" (and they certainly appeal to any intelligent person); if they are "fairly within the grant of the right to use" (to quote the language of the Supreme Court), then the limitation is valid, and can be enforced.

CASE PRESENTED BY BILL AND DECREE COMPLAINED OF
DOES NOT INVOLVE ANY QUESTION OF JURISDICTION
EITHER AS TO PARTIES OR SUBJECT MATTER.

That the license agreement constitutes an implied contract not to use the machine or the record in a pro-

hibited manner is plain; with the necessary conclusion flowing thereafter that either a violation thereof or an excess use of the patented thing beyond that permitted by the license, vests in the patentee, at its option, a right of action (a) either to sue upon the contract, or by bill to declare it forfeited, or (b) to sue for infringement for the unlicensed excess use of the patented article. *Henry v. Dick*, 224 U. S. 1 (14). Judge Shipman remarked in *Magic Ruffle Co. v. Elm City Co.*, 13 Blatch. 151:

“it was competent for the complainants to take either one of the two remedies: they could bring a bill alleging an injury to their exclusive rights under the laws of the United States or, as the residence of the parties gave this court jurisdiction, could bring a proper suit setting up the breach of the contract as the gravamen of their action.”

CASE PRESENTED BY BILL AND DECREE COMPLAINED OF HAS NOT THE MOST REMOTE RELATION TO THE ANTI-TRUST SHERMAN AND CLAYTON ACTS.

Much ado is made of this in petitioner's brief, as seems to be the prevailing custom where there is no real defence. It is sufficient reply, to quote from the decision of this Court in *Standard Sanitary Co. v. United States*, 226 U. S. 20 as follows:

“And we shall keep in mind and apply the principle expressed in *E. Bement & Sons v. National Harrow Co.*, 186 U. S. 70, that the Sherman Law ‘clearly does not refer to that kind of a restraint of interstate commerce which may arise from reasonable and legal conditions imposed upon the assignee or licensee of a patent by the owner thereof, restricting the terms upon which the article may be used and the price to be demanded therefor. Such a construction of the act, no doubt, was never contemplated by its framers’ ”(pp. 39-40 of report).

BOTH OBJECTIONS OF JURISDICTION AS TO SUBJECT MATTER AND ANTI-TRUST LAWS WERE TWICE DECIDED AGAINST PETITIONERS IN THE DISTRICT COURT AND NEITHER TIME APPEALED FROM BY THEM.

The grounds of demurrer assigned to the amended bill (Rec. 33) were identical with those to the original bill (Rec. 27). In each case, the first was addressed to jurisdiction, and the third to the so-called anti-trust defence. Each was overruled both times; and without appeal by petitioners either time. On the first appeal the cause was remanded with leave to amend the bill, which was thereupon amended (Rec. 28-32) as indicated in the appellate opinion (Rec. 47-49). It is very questionable if the defendants (petitioners) had any right to interpose, a second time, the two originally overruled grounds of demurrer; and for the reason stated, they are certainly out of place in this petition, and not a subject for consideration, certainly not at this stage of the proceedings.

BRIEF STATEMENT OF THE CAUSE OF ACTION PRESENTED BY THE PLEADINGS; AND AUTHORITIES IN SUPPORT OF THE RELIEF PRAYED.

The petitioners, as defendants below, were impleaded in the District Court in an action in equity charging them with infringement of a number of patents (some of which have been adjudicated) owned by the plaintiff corporation for its well-known sound reproducing machines and sound records adapted to be used therewith. The infringement charged was not the usual one of a making and selling, for the machines and records which came into the possession of defendants and which they sold and offered for sale are genuine machines and sound records, of plaintiff's manufacture, but for a lack of title to the physical things and license to use them and for an inhibited sale

of such machines and records, in excess of the license contract; each specific machine and sound record being licensed for use only, by a specific and non-assignable license attached thereto, and also limited under certain conditions and restrictions as to such use; and by the same license grant the licensee obtained a qualified right of possession only to the physical thing embodying the patented invention and to which the patent license appertained.

The defendants, without pleading to the merits by answer, filed their motion, under new equity rule 29, to dismiss the bill, assigning *inter alia*, that the bill and amended bill did not set forth any cause of action in equity, the defendants contending argumentatively in support of this ground of demurrer, that the license contract was in fact and in law an unlimited and unconditional sale under which the defendants claimed to have acquired an unqualified and absolute title to the machine per se as also an unqualified license, under the patent, to use it, sell it or otherwise dispose of it without limitations; in other words that the contract recited in the bill and quoted in the opinion of the Court of Appeals was void both as to machine and patent license; the theory of the defendants' (petitioners) argument being that the contract was, on its face, an exercise of the patentee's monopoly right "to vend" and not a fair exercise of his segregable right "to use".

The bill and amended bill recite the peculiar nature of the patented machines and sound records, and hence the desirability from every point of view, if not the necessity, of limiting the use of one with the other. The sound records form the subject matter of one or more of the patents sued on. As physical things they are wholly disconnected from the sound reproducing machine, forming the subject matter of the remaining patents sued on. They are capable of

being used (though in violation of the license) on some other generically like machines on the market, for the purpose, in a lesser degree, for which they are made and intended to be used by the plaintiff on its patented machines.

The other patented element, the sound-reproducing machine is adapted to actuate the sound record to reproduce the sound waves which have been recorded thereon. A graphic description of the basic type of each, and their mode of operation, conjointly, for the production of a single unitary result, will be found in two decisions of this Court, reported 213 U. S. 301 and 325.

Manifestly therefore this machine and these sound records are, as the bill points out, of such character that the best and intended results from each, are attained by limiting the use of one with the other, each thereby contributing to the utility, in the highest degree, of the other; and it is equally manifest that the use of each with the other, thus compelled, will preserve the high standard of reputation of both and naturally result in an increased output of both. By the system described, of marketing the patented article with limited use license, the plaintiff patentee can therefore well afford to reap the benefit of its monopoly on the machine in the same manner as on the record, viz., by dividing the tribute or royalty into two different and successively accruing parts, one as a low cash payment (by the licensee when he acquires possession of the machine or record and takes his license) and covering substantially only the first cost of the machine or record (as averred in the bill), and the remainder of the appropriate patent tribute or royalty which arises from the necessary effect of the limitations of the license in the increased output of the patented machines and records and the consequent aggregate profits thereon to the manufacturing patentee.

As pointed out in the fifteenth paragraph of the bill (Rec., p. 9), the corporation plaintiff is not only the owner of the patent monopoly, but exclusively employs it in the manufacture of the patented devices, which it produces with a very large investment of capital and at great expense, and has adopted and employs a system of marketing its goods, the purpose of which is stated in said paragraph as follows:

“that for the purpose of suitably and efficiently marketing its said patented product so manufactured by it, and thereby introducing the said inventions into public use and of reserving to itself by appropriate, suitable and reasonable means, the benefit and value of its patent monopoly thereon, has established” etc.

The system is recited in the same paragraph 15 of the bill as follows:

“it markets and delivers its said machines and sound records to the ultimate user, under special limited title to and right of possession of the patented article accompanied by a limited right of use thereof under the patent monopoly thereon, the property of the plaintiff by virtue of said several letters patent hereinabove recited and others; the said limited title to and right of possession of each machine or record, and the limited license to use the same being evidenced by a recital thereof . . . on each specimen of a certain label securely attached to each machine and identifying it by a certain arbitrary name and number”; (and the same as to the records).

The propriety and reasonableness of the afore-said system, and indeed of any system of enabling a patentee who as such assumes the burdens and risk of a manufacturer of a patented article, to obtain a just tribute for his invention (aside from a fair percentage of profit due to him as manufacturer) depends or should be governed by the nature and character of the

patented invention. The reasons for the system adopted by the plaintiff are set forth in part in paragraph 17 of the bill.

The license contract, attached to and governing each specimen of the patented inventions, is printed at large in paragraph 19 of the bill (Rec., pp. 13 to 15) and its nature and character as well as the result and effect thereof, are concisely stated in paragraph 16 of the bill, which we quote in full as follows:

"Plaintiff further avers that by means of its aforesaid method and system of marketing said patented machines and sound records, manufactured by it, through the instrumentality of a contract of limited license qualifying the title to the article and the right to use it under the patent monopoly, it is thereby enabled to reserve to itself and obtain the benefit and value of its patent monopoly at a minimum of cost to the licensee, by fixing the cash payment of royalty to be made by such ultimate possessor and licensed user, through its said licensed dealers, of a sum sufficient only, after a reasonable allowance therefrom to the licensed dealer, to cover cost of manufacture, and a low percentage for manufacturer's profit, and hence that the value, benefit and advantage to the plaintiff of its patent monopoly thereon is realized wholly from and as a direct result of the license contract and its limitations and restrictions, among others, that the license shall be limited to a right of possession for use only, and shall be personal and non-assignable in the hands of the licensee who shall have acquired the same from any specially licensed dealer of the plaintiff, and shall authorize such use of either machine or record only when used conjointly."

Briefly stated, the bill avers that plaintiff delivered to its licensed distributors or dealers, a large number of its patented machines and patented sound records, under a general written contract of license, limited, inter alia, in two respects: (1) that they were

authorized thereby *to use* them, *only* for the purpose of demonstration to the public, as possible customers, and (2) were empowered to effect a delivery of the physical thing to any such customer, accompanied by a special license, *direct from the plaintiff*, for the specific machine or record, such license being printed upon a label affixed thereto, and which recites the qualified right of possession passed thereby and the license and its limitations in full; and such customer, with full knowledge or notice thereof, thereby acquires (through such intervention of the distributing intermediary) the possession of the physical thing patented, and, from the plaintiff direct, a *qualified* right to possession of the physical thing and a limited license *to use* it, and for no other purpose until worn out or until the patents on it expire, subject to other restrictions, conditions and privileges recited in the license as conditions subsequent.

There is a distinguishing circumstance in the case at bar which must not be overlooked. The paramount contract between the plaintiff patentee and its licensed distributors of the patented goods passes no title nor any authority to such licensed distributor save to act as the intermediary of the plaintiff in making delivery of the machine or record and the specific license for each machine or record so delivered and licensed to the ultimate user. The contract of license controlling the right to possession of and permitted limited *use* of each machine, is not between the plaintiff patentee and the defendant licensee as a third person, but between the former and the latter directly. There is, so far, a privity of contract between them, because the machines and records in the hands of the defendant are each specifically licensed by a label license affixed to it, issuing directly from, signed by, and as the act of the plaintiff, and the acceptance of

the machine or record, with such license contract specific to and affixed to it, and with full knowledge of its terms and limitations, creates such privity of relation, which estops any person, claiming under it, from denying or questioning the validity of its terms.

The charge, therefore, is that these defendants, covertly acquired, from time to time, certain large numbers of plaintiff's patented machines and sound records, and with full knowledge in addition to full notice of exactly what rights they could acquire from the plaintiff, not only to the physical thing, but to any license right to use it; but having so acquired such possession of the thing without compliance with the condition precedent requiring payment of the full license price or royalty, acquired neither title to the machine nor the limited license to use it, nevertheless proceeded to assert an unqualified title as well in the article itself as in the right, under the patents, to use it, equivalent to asserting that both were invalid in law and not binding upon them; and thereupon deliberately sold, or offered for sale (1) the physical thing without qualification, and (2) attempted to sell to their vendee a full and free right to do as he please with it, either to alter, use or sell it, or even destroy it, in excess of the scope of the license and particularly of the additional expressed limitation (as to use) that the machine should not be used with any other than the patented sound record, nor the latter except with the former.

The cause of action relied on is purely infringement of patent, and the relief prayed accords therewith. To repeat, concisely, it charges infringement of patents by a person who, having obtained possession of patented machines and patented sound records, with full knowledge of and in disregard of the conditions under which he could obtain a present *qualified* right of possession and ultimately a full title with con-

tinned right of possession and use, has undertaken in alleged justification of his or their acts not only to assert the invalidity of the conditional license rights they could have acquired lawfully by compliance with the condition precedent of the license contract, and which they never paid for, but to set up *additional* asserted rights they knew were not given to or acquired by them under the license affixed to the machine or record, and moreover, to do these unlawful acts in a manner, by store display-signs and advertisements which openly and unqualifiedly *express* an intent and purpose to not only exceed the terms of the license by selling and offering to *sell* to the public an *unconditional* title to the licensed machines and records, which they have not lawfully acquired title to, but to disregard the several restrictions of the *use* license, and by both acts to wantonly destroy the plaintiff's established business in its patented machines and records.

The petitioners' (defendants') objections to the decree complained of have no merits in fact or in law to support them, and for that reason, as also for the reasons stated in the preceding paragraphs of this brief, the writ of certiorari prayed for should be denied.

FREDERICK A. BLOUNT,
HECTOR T. FENTON,

Counsel for Respondent.

February 28, 1916.

Supreme Court of the United States

OCTOBER TERM, 1915—No. 840.

JESSE ISIDOR STRAUS, PERCY S.
STRAUS and HERBERT N.
STRAUS, composing the firm
of R. H. MACY & Co.,
Petitioners,

against

VICTOR TALKING MACHINE
COMPANY,
Respondent.

2

On Writ of Certiorari to the Circuit Court of Appeals for the Second Circuit.

MOTION BY PETITIONERS TO ADVANCE THE HEARING
OF THE CAUSE ON THE CALENDAR.

Motion.

3

Jesse Isidor Straus, Percy S. Straus and Herbert N. Straus, composing the firm of R. H. Macy & Co., the petitioners, pray that the hearing on the writ of certiorari to review the decree of the Circuit Court of Appeals be advanced to an early date on the calendar of this Court.

- 4 PLEASE TAKE NOTICE that on Monday, the 3rd day of April, 1916, at the opening of the Court, or as soon thereafter as counsel can be heard, a motion, of which the foregoing is a copy, will be submitted to the Supreme Court of the United States for the decision of the said Court thereon.

Annexed hereto is a copy of the affidavit to be submitted with the said motion in support thereof.

Dated, New York, March 17th, 1916.

EDMOND E. WISE,
Of Counsel for the above designated
petitioners for the above motion.

- 5 To:

THE CLERK OF THE SUPREME COURT
OF THE UNITED STATES.

To:

FENTON & BLOUNT, Esqs.,
Counsel for Respondent.

SUPREME COURT

7

OF THE UNITED STATES,

OCTOBER TERM, 1915—No. 840.

JESSE ISIDOR STRAUS, PERCY S.
 STRAUS and HERBERT N.
 STRAUS, composing the firm
 of R. H. MACY & Co.,

Petitioners,

against

VICTOR TALKING MACHINE
 COMPANY,

Respondent.

8

STATE OF NEW YORK, }
 COUNTY OF NEW YORK, } ss.:

EDMOND E. WISE, being duly sworn, deposes and says: That he has been the solicitor for and counsel of the petitioners in the above-entitled matter since the commencement thereof.

On the 18th day of November, 1914, the Victor Talking Machine Company instituted a suit in equity in the District Court for the Southern District of New York against the petitioners, claiming the right to restrain the defendants from selling or offering for sale, or attempting to part with, the title and right of possession of any of the complainant's patented talking machines and sound records in violation of a so-called "license," and its terms, conditions and limitations set forth in notices attached to the patented instruments and sound records. A motion to dismiss the bill was made on

9

- 10 December 11, 1914, and was granted (222 Fed. Rep., 524). An appeal was taken to the Circuit Court of Appeals, which affirmed the dismissal, but directed the District Court to permit an amendment of the complaint (225 Fed. Rep., 535).

An amended complaint was served on August 23, 1915. A motion to dismiss was again made and granted, but on appeal to the Circuit Court of Appeals from the order of dismissal that decree was reversed on the 10th day of January, 1916 (opinion not yet reported).

- 11 Thereafter, and upon the 28th day of February, 1916, a petition for a writ of certiorari to the Circuit Court of Appeals for the Second Circuit was submitted, and on the 6th day of March, 1916, this Court granted said petition, and thereafter, and on the 8th day of March, 1916, duly issued its said writ of certiorari to the Circuit Court of Appeals for the Second Circuit, and, as this deponent is informed and believes, the Clerk of said Court has duly filed a return to the said writ of certiorari, including a certified record of the proceedings, in said Court, and this cause has now been duly docketed in this Court and is numbered 840 on the October, 1915, Calendar, and will appear in the ordinary course upon the Day Calendar of this Court, as deponent is informed and believes, in about two years.

- 12 The questions involved are of grave and serious importance, not only to the parties to this litigation, but to all manufacturers and dealers in patented articles throughout the United States, and, owing to the lack of uniformity in the decisions in the various circuits, much confusion prevails as to the rights of manufacturers and dealers in such articles; and unless this cause is advanced to an early hearing, that confusion will continue for a period of approximately two years more and until

this cause is reached in its regular order and the decision of this Court is given therein. 13

The two important questions, amongst others, to be argued, concisely stated, are as follows:

FIRST: When a patentee has permanently parted with the entire right to use and has no longer any interest in the royalties from subsequent sales, can he further control the sale, either of the physical instrument, or the right to its limited use in subsequent transfers?

SECOND: Is the system of marketing its goods legal whereby the respondent, through contracts with seven thousand "licensed distributors" and "licensed dealers," controls both the price at which possession of its instruments and records, and their use, can be transferred, as well as the persons who may be permitted to deal in such instruments and records, or is such system contrary to the Common Law, The Sherman Anti-trust Law and the Clayton Bill extending the same? 14

After the Circuit Court of Appeals had rendered its decision sustaining the validity of the respondent's system of licenses, the Victor Talking Machine Company took immediate steps to secure injunctions against dealers in talking machines who did not observe its rules, and having obtained such injunctions on the strength of the decision in the Circuit Court of Appeals, it immediately circularized the whole trade of the United States, and threatened to enforce said system wherever it found any violation thereof. A copy of said circular is hereto annexed and marked "Exhibit A." The direct effect of that circular, and of the various litigations started and threatened by the Victor Talking Machine Company, is to completely terror- 15

16. ize the dealers in Victor talking machines and records. This affects more than seven thousand merchants, and further, affects the best known and most largely sold talking machines and records. There are several other manufacturers of talking machines and records, but they all market their goods in practically the same way as the Victor Talking Machine Company does, and, as a consequence, practically the whole trade, involving many millions of dollars, is conducted under a method which, if erroneous and contrary to law, will have been so firmly established in the course of two years that it will make it impossible for an independent dealer to do any business during that time, and, consequently, will permanently eliminate all
17. independent dealers.

Deponent further submits that the system in question has been imitated by a large and ever-increasing number of owners of patents who are desirous of securing to themselves the benefits of a control over the resale prices of their products, and of the right to designate who shall be, and who shall not be, permitted to deal in them.

The petitioners believe that it will be a matter of the utmost importance that these questions, affecting so many different interests, be speedily and definitely settled, and, therefore, your petitioners respectfully pray that this cause be advanced and set down for hearing at an early date.

18.

EDMOND E. WISE.

Sworn to before me this
17th day of March, 1916.

GEORGE F. HANRAHAN,
(L. S.) Notary Public,
New York County No. 425.

Exhibit A.

19

Camden, N. J., U. S. A., January 28, 1916.

To Victor Dealers:—

We append below, for your information, abstract of an Order of the United States District Court, at New York, entered on January 21st, 1916, in a suit we were compelled to bring against one of our licensed Dealers who violated the terms and conditions of our Dealers Contract with us.

Except in rare instances, our licensed Dealers live up to their Contracts in good faith; and in justice to them as well as to ourselves, we shall take prompt steps to enforce the contract in every case in which any of our Dealers violate any of its conditions.

20

VICTOR TALKING MACHINE COMPANY
Per Louis F. Geissler,
General Manager.

UNITED STATES DISTRICT COURT,
SOUTHERN DISTRICT OF NEW YORK.

VICTOR TALKING MACHINE Co.

vs.

GLOBE TALKING MACHINE Co.

In Equity.

21

ORDERED, ADJUDGED AND DECREED that until the final hearing of this cause, or until further order of this court, the said defendant, GLOBE TALKING

22 MACHINE Co., its officers, agents, servants, associates, and each and every of them, be and they are hereby enjoined and restrained from any further violation of the contract dated October 21, 1914 (a copy of which is annexed to the bill of complaint herein, and marked "Plaintiff's Exhibit A"), and particularly from selling or otherwise parting with, or offering so to do, any of the Victor patented machines or sound records obtained from plaintiff herein, or any of its licensed Distributors, and now in the possession of said defendant, or under its control, at less than full list price or royalty marked upon each of said machines and records respectively.

23

24

Supreme Court of the United States.

October Term, 1915. No. 840.

JESSE I. STRAUS, PERCY S.
STRAUS, individually,
and as copartners trad-
ing as R. H. MACY &
Co.,

Petitioners,

vs.

VICTOR TALKING MACHINE
COMPANY,
Respondent.

On Certiorari to the U. S.
Circuit Court of Ap-
peals for the Second
Circuit.

SUB MOTION BY PETITIONERS TO ADVANCE THE HEARING
OF THE CAUSE ON THE CALENDAR.

MEMORANDUM FOR RESPONDENT.

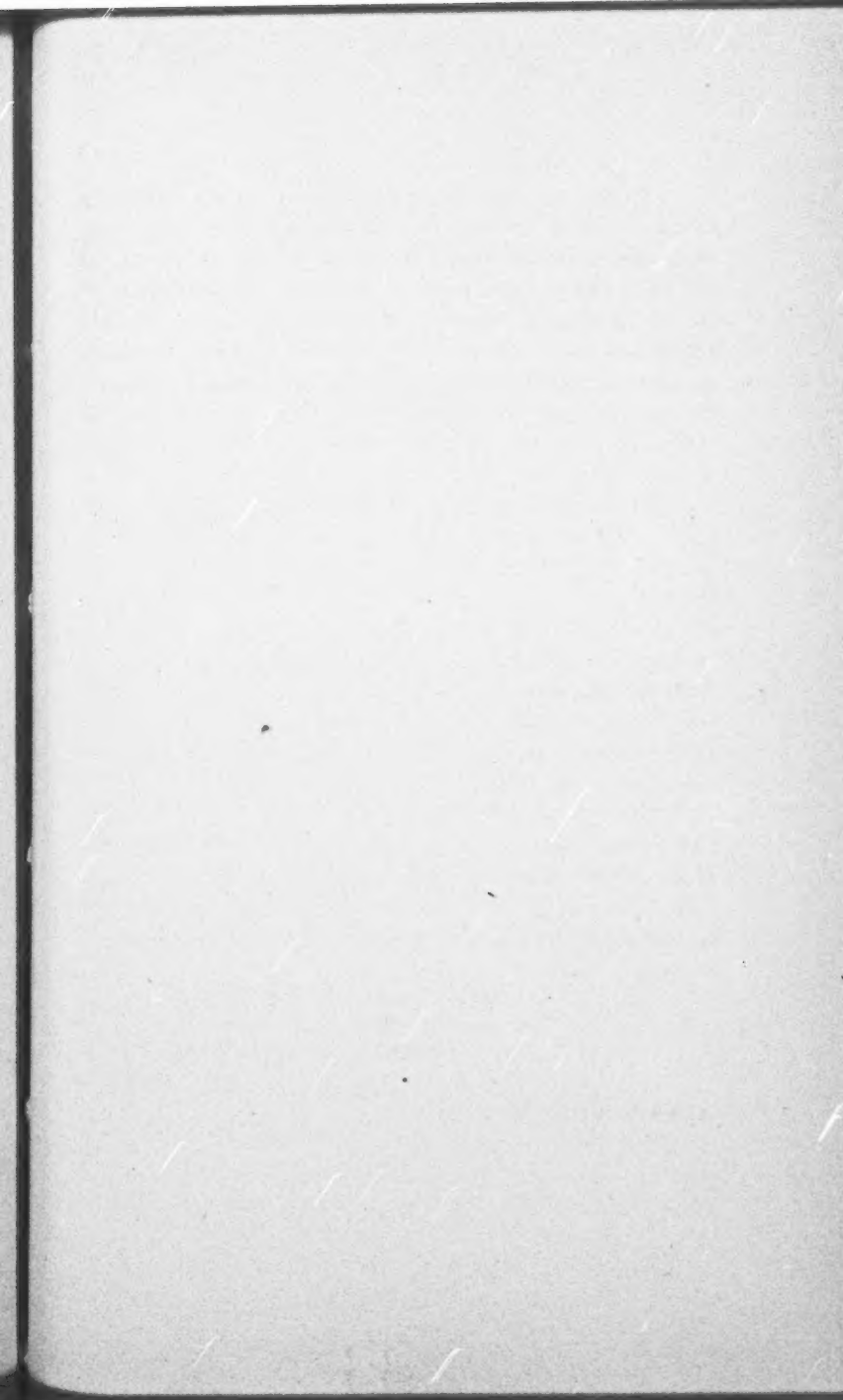
No objection is made to this motion to advance, but on the contrary it is consented to by respondent, with the suggestions however that as the Certiorari was granted apparently because of the general nature of the questions involved, it should be heard by a full bench, and, in order to give counsel sufficient time to prepare a carefully considered brief on the questions, it is respectfully suggested that the advance assignment should not be as of any date prior to the early part of the next ensuing October term 1916.

In thus joining in, or consenting to the granting of the motion to advance, the respondent expressly disclaims any inference of acquiescence in many of the statements contained in the affidavit on behalf of the petitioners in support of the motion, but expressly traverses many of them as unwarranted by anything contained in the transcript of record, and especially the petitioners' version of the questions involved in the cause; neither of them being correctly presented, at least from our point of view based on the record.

The suggestion that after the decision of the Circuit Court of Appeals complained of, the Victor Talking Machine Company "took immediate steps to secure injunctions against dealers in talking machines who did not observe its rules," is without foundation in fact; the single case (being that against the Globe Talking Machine Company, by the decree printed on pp. 7 and 8) did not involve the questions presented in the case at bar, but was based solely on a flagrant violation of a distributing contract, made directly by and between the parties to that action, to which violation it was induced by, or for the benefit of, these very petitioners. The circular letter, Exhibit A, page 7, folios 19 and 20, relates to *that* case, and not to the decision of the Circuit Court of Appeals here under review.

Respectfully submitted,
FREDERICK A. BLOUNT,
HECTOR T. FENTON,
Counsel for Respondent.

April 3, 1916.





Supreme Court of the United States

OCTOBER TERM, 1916—No. 374.

JESSE ISIDOR STRAUS, PERCY S.
 STRAUS and HERBERT N.
 STRAUS, composing the firm
 of R. H. MACY & Co.,
 Petitioners,

against

VICTOR TALKING MACHINE
 COMPANY,
 Respondent.

2

On Writ of Certiorari to the Circuit Court of Appeals for the Second District.

MOTION BY PETITIONERS TO ADVANCE THE HEARING
 OF THE CAUSE ON THE CALENDAR.

3

Jesse Isidor Straus, Percy S. Straus and Herbert N. Straus, composing the firm of R. H. Macy & Co., petitioners, pray that the hearing on the writ of certiorari to review the decree of the Circuit Court of Appeals, be advanced to an early date on the calendar of this Court.

- 4 PLEASE TAKE NOTICE that on Monday, the 9th day of October, 1916, at the opening of the Court, or as soon thereafter as counsel can be heard, a motion of which the foregoing is a copy, will be submitted to the Supreme Court of the United States for the decision of the Court thereon.

This motion is made on the affidavit and papers heretofore and on or about the 3rd day of April, 1916, submitted to the Court on a previous motion to advance this cause to an early date on the calendar of the Court, which said motion was denied on April 10, 1916, without prejudice to the renewal thereof at the next term of this Court.

- 5 Dated, New York, September 6th, 1916.

EDMOND E. WISE,
Of Counsel for the above designated
petitioners for the above motion.

To:

THE CLERK OF THE SUPREME COURT
OF THE UNITED STATES.

To:

FENTON & BLOUNT, Esqs.,
Counsel for Respondent.



STRAUS ET AL., COMPOSING THE FIRM OF R. H.
MACY & COMPANY, v. VICTOR TALKING MA-
CHINE COMPANY.

CERTIORARI TO THE CIRCUIT COURT OF APPEALS FOR THE
SECOND CIRCUIT.

No. 374. Argued January 12, 1917.—Decided April 9, 1917.

The monopoly of use granted by the patent law can not be made a means of controlling the prices of the patented articles after they have been, in reality even though not in form, sold and paid for.

An attempt by means of "license contracts" with dealers and "license notices" attached to patented machines to retain title in the manufacturer and patent owner until the expiration of the latest patent referred to in such notice, and to limit until the expiration of such period the right of the public to a mere license to use dependent upon observance of conditions in the "license notices," including conditions as to price, will not be regarded as a legitimate exercise of the patent owner's control over the use where, plainly, from the terms of the "license notices" and from the relations established between the patent owner and the dealers through whom the machines are distributed, the object of such reservations and restrictions is to enable the patent owner to fix and maintain the prices at which the machines may be disposed of after they have passed from its possession into the possession of the dealers and the public and after it has received from the dealers the full price which it asks or expects for the machines.

In such case, as to purchasers not in privity with the patent owner, the restrictions of the "license notices" are to be treated as void attempts to control prices after sale, and in buying from the dealers and reselling to the public at prices lower than the notices prescribe such purchasers do not violate the rights secured to the patent owner by the patent law.

230 Fed. Rep. 449, reversed.

THE case is stated in the opinion.

Mr. Edmond E. Wise and Mr. Walter C. Noyes for petitioners.

Mr. Hector T. Fenton, with whom Mr. Frederick A. Blount was on the brief; for respondent:

The manner by which the plaintiff obtains the benefit of its patent is by delivering the physical thing, accompanied by a specifically limited use license affixed thereto, on payment by the licensee of a certain initial or cash royalty as a *sine qua non* to the passing of any title or right of possession or use. The licensee thus obtains a qualified title only in the physical thing with a specific and limited license to use under the patents. He acquires possession with full knowledge of the limitations. The paramount license between plaintiff and its distributors passes no title or authority save to act as intermediaries of the plaintiff in delivery of machine or record, and of the specific license for and attached to each machine or record so delivered, to the user. The specific license controlling the title and permitted use is between the plaintiff and the user. A privity of relation between them is created when the intended licensee by paying the initial royalty gains lawful possession of the machine with the license right given therewith, because such license affixed to the machine or record, issuing directly from, signed by, and as the act of the plaintiff, and the acceptance of the machine or record, with such license specific to and affixed to it, and with full knowledge of its terms and limitations, creates such privity of relation.

Defendants, having covertly obtained possession of the physical thing and the limited license to use, without having paid the full initial cash portion of the consideration required by the terms of the license as a condition precedent, acquired no lawful right of possession or limited right to use. The injury to plaintiff in destroying its market and its standard royalty rates for its machines and records by their reselling at even lower rates, is merely an incident in aggravation of the tort of infringing its patents. The action is *ex delicto* and jurisdiction of

the federal courts exists. *Fair v. Kohler Die Co.*, 228 U. S. 22; *Healy v. Sea Gull Co.*, 237 U. S. 479, 480; *Geneva Furniture Co. v. Karpen*, 238 U. S. 254, 260; *Henry v. Dick Co.*, 224 U. S. 1.

The Anti-Trust Acts have no applicability. *Standard Sanitary Co. v. United States*, 226 U. S. 20, 39-40.

The defendants had full knowledge of the license restrictions and of the portion of the patent monopoly reserved. *Henry v. Dick Co.*, *supra*; *Wood v. Carpenter*, 101 U. S. 135, 142; *Shauer v. Alterton*, 151 U. S. 607, 622; *American Cotton Tie Co. v. Bullard*, 4 Ban. & A. 520.

To qualify the exclusive rights granted by the patent law is to deprive the patentee unjustly of part of the consideration for which he parted with his disclosure. Under the patent laws the patentee may maintain a close monopoly of the rights granted or separately exercise the distinct rights to make, to use, and to sell. He may limit a license to use for specific purposes only, may charge what he thinks proper for permitting invasion of his monopoly, and may contract for his consideration either in money, or by way of conditions on the use, or both. He may impose any conditions "not definitely illegal." *Bement v. Harrow Co.*, 186 U. S. 70, 91; *Bauer v. O'Donnell*, 229 U. S. 1. The distinction is plain between the property right in the materials composing a machine or the machine as a physical thing, and the right to use it for the purpose and in the manner pointed out by the patent. *Henry v. Dick Co.*, *supra*. The rights to make, sell, and use are each substantive, distinct rights, and may be granted or conferred separately by the patentee. *Bauer v. O'Donnell*, *supra*. Any invasion of a reserved control over the use is an invasion of the patent. Cases last cited.

The law relating to attempted conditions on resale of unpatented chattels (*Miles Medical Co. v. Park*, 220 U. S. 375, 401) has no bearing, nor has the question whether

the transaction amounts to a conditional sale at common law. For there is no "absolute and unconditional sale which operates to pass the patented thing outside the boundaries of the patent," or indeed any sale at all. Plainly the license restrictions qualify not only the right to use but also the otherwise unlimited title to and right of possession in the machine considered as the physical embodiment of the invention patented and licensed as distinguished from the materials composing it. There is no unconditional passing of the title. *Henry v. Dick Co., supra*. Indeed, there is no sale whatever, and the defendants having never acquired either title or right of possession, cannot set up the license affixed to the machine in justification of their infringement.

The decision in the *Dick Case* properly holds that the patented article sold by a patentee with a condition as to use exemplifies two severable rights of property, one arising under the common law, to the physical thing as such, and the other an incorporeal property right in it as the embodiment of a patented invention the exclusive right to use which belongs to the *same* owner. Hence a sale of the physical thing with a qualification of the right to use it, by a patentee or licensee possessing *both* rights of property, operates not alone as an exercise of the right "to use," conferred by the patent grant, but, in the very nature of things, operates to qualify the title and free right of disposition, of the physical thing which is an exemplification or embodiment of the *invention* so *specifically* licensed. If the transaction be such that, to use the language of Judge Lowell in *Porter Needle Co. v. National Needle Co.*, 17 Fed. Rep. 536, it is clear "the patentee has chosen to dis sever the ownership and right of use, and that his intent is not doubtful," then (as found by the majority opinion in the *Dick Case*) it was "the kind of limitation which may lawfully be imposed (by a patentee) upon a purchaser" of his patented machine; and a "law-

ful qualification" upon the use thereof, binding upon the licensee and his assigns with notice.

There is no conflict between the *Dick Case* and *Bauer v. O'Donnell*. The ground of dissent in the former had to do with the confining of the use of the machine to materials wholly unpatented. In this case both machines and records are the subject of independent patents. In the *Bauer Case* the patented articles were absolutely sold and an attempt made to limit resale. In the opinion it is so distinguished from the *Dick Case*.

Mr. Elisha K. Camp, Mr. Daniel N. Kirby and Mr. Taylor E. Brown, by leave of court, filed a brief on behalf of the American Graphophone Company and the Columbia Graphophone Company, as *amici curiæ*.

MR. JUSTICE CLARKE delivered the opinion of the court.

It will contribute to brevity to designate the parties to this proceeding as they were in the trial court—the respondent as plaintiff and the petitioners as defendants.

The plaintiff in its bill alleges: That it is a corporation of New Jersey; that for many years it has been manufacturing sound-reproducing machines embodying various features covered by patents of which it is the owner, and that, for the purpose of marketing these machines to the best advantage, about August 1st, 1913, it adopted a form of contract which it calls a "License Contract" and a form of notice called a "License Notice," under which it alleges all of its machines have, since that date, been furnished to dealers and to the public.

This "License Notice," which is attached to each machine and is set out in full in the bill, declares that the machine to which it is attached is manufactured under patents, is licensed for the term of the patent under which it is licensed having the longest time to run and may be

used only with sound records, sound boxes and needles manufactured by the plaintiff; that only the right to use the machine "for demonstrating purposes" is granted to "distributors" (wholesale dealers), but that these "distributors" may assign a like right "to the public" or to "regularly licensed Victor dealers" (retailers) "at the dealers' regular discount royalty"; that the "dealers" may convey the "license to use the machine" only when a "royalty" of not less than \$200 shall have been paid, and upon the "consideration" that all of the conditions of the "license" shall have been observed; that the title to the machine shall remain in the plaintiff which shall have the right to repossess it upon breach of any of the conditions of the notice, by paying to the user the amount paid by him less five per cent. for each year that the machine has been used. The notice in terms reserves the right to the plaintiff to inspect, adjust and repair the machine at all times and to instruct the user in its use, "but assumes no obligation so to do;" it provides that "any excess use, or violation of the conditions, will be an infringement of the said patents," and that any erasure or removal of the notice will be considered as a violation of the license. Finally, it provides that at the expiration of the patent "under which it is licensed" having the longest time to run the machine shall become the property of the licensee provided all the conditions recited in the notice shall have been complied with and the acceptance of the machine is declared to be "an acceptance of these conditions."

The contract between the plaintiff and its dealers is not set out in full in the bill but it is alleged that since August 1st, 1913, the plaintiff has had with each of its 7,000 licensed dealers a written contract in which all the terms of the "License Notice" are in substance repeated and in addition it is alleged that each dealer "if he has signed the assent thereto" is authorized to dispose of any machines received from "the plaintiff either directly or through a

paramount distributing dealer," but subject to all of the conditions expressed in the "License Notice." It is alleged that this contract contains the provision that "a breach of any of the conditions on the part of the distributor will render him also liable not only for infringement of the patents but for an action on the contract, or other proper remedy."

As to the defendants the bill alleges that they conduct a large mercantile business in New York City; that with full knowledge of the terms of the contract, as described, between the plaintiff and its distributors and of the "License Notice" attached to each machine, the defendants "being members of the general unlicensed public," and having no contract relation with the plaintiff or with any of its licensed distributors or licensed dealers, induced "covertly and on various pretenses," one or more of plaintiff's licensed distributors or dealers to violate his or their contracts with the plaintiff, providing that no machines should be delivered to any unlicensed member of the general public until "the full license price" stated in the "License Notice" affixed to each machine was paid, and thereby obtained possession of a large number of such machines at much less than the prices stated in the "License Notice"; that under the terms of the said license agreement and notice, they have no title to the same, and that they have sold large numbers thereof to the public and are proposing and threatening to dispose of the remainder of those which they have acquired to "the unlicensed general public," at much less than the price stated in the notice affixed to each machine.

The prayer is for an injunction restraining the defendants from selling any of the machines, possession of which they have acquired, from other and further violation of plaintiff's rights under its letters patent and for the usual accounting and for damages.

The District Court regarded the transaction described

243 U. S.

Opinion of the Court.

in the "License Notice" as in substance a sale which exhausted the interest of the plaintiff in the machine, except as to the right to have it used with records and needles as provided for therein, and this right not being involved in this case it dismissed the bill. 222 Fed. Rep. 524.

On appeal, the Circuit Court of Appeals affirmed this judgment and remanded the case, but with instructions to allow the plaintiff to amend its bill "if it be so advised." 225 Fed. Rep. 535.

The bill was thereafter so amended as to allege that the defendants had in their possession a large number of machines which they had obtained from plaintiff's distributors and dealers at much less in each case than the price stated in the "License Notice," and that they were proposing to dispose of these machines to the "unlicensed general public" at less than the prices stated in the "License Notice" in disregard of plaintiff's rights.

Again the District Court, on the same ground as before, sustained a motion to dismiss the bill, but the Circuit Court of Appeals reversed this holding (230 Fed. Rep. 449) and the case is here for review on certiorari.

The abstract of the bill which we have given, makes it plain: That whatever rights the plaintiff has against the defendants must be derived from the "License Notice" attached to each machine, for no contract rights existed between them, the defendants being only "members of the unlicensed general public;" and that the sole act of infringement charged against the defendants is that they exceeded the terms of the license notice by obtaining machines from the plaintiff's wholesale or retail agents and by selling them at less than the price fixed by the plaintiff.

It is apparent from the foregoing statement that we are called upon to determine whether the system adopted by the plaintiff was selected as a means of securing to the owner of the patent that exclusive right to use its invention which is granted through the patent law, or whether,

under color of such a purpose, it is a device unlawfully resorted to in an effort to profitably extend the scope of its patent at the expense of the general public. Is it the fact, as is claimed, that this "License Notice" of the plaintiff is a means or agency designed in candor and good faith to enable the plaintiff to make only that full, reasonable and exclusive use of its invention which is contemplated by the patent law or is it a disguised attempt to control the prices of its machines after they have been sold and paid for?

First of all it is plainly apparent that this plan of marketing adopted by the plaintiff is, in substance, the one dealt with by this court in *Dr. Miles Medical Co. v. Park & Sons Co.*, 220 U. S. 373, and in *Bauer v. O'Donnell*, 229 U. S. 1, adroitly modified on the one hand to take advantage, if possible, of distinctions suggested by these decisions, and on the other hand to evade certain supposed effects of them.

If we look through the words and forms, with which the plaintiff has most elaborately enveloped its purpose, to the substance and realities of the transaction contemplated, we shall discover several notable and significant features. First, while as if looking to the future, the notice, in terms, imposes various restrictions as to title and as to the "use" of the machines by plaintiff's agents, wholesale and retail, and by the "unlicensed members of the public," for itself, the plaintiff makes sure, that the future shall have no risks, for it requires that all that it asks or expects at any time to receive for each machine must be paid in full before it parts with the possession of it.

Second, while in terms the "use" of each machine is restricted and forfeiture for failure to strictly comply with the many conditions and requirements of the notice is provided for, this system, elaborate to the extent of confusion, fails utterly to provide for entering any evidence of a qualified title in any public office or in any public

record, and no requirement is found in it for reporting by users or licensees, who may remove from one place to another taking the machine with them, as would very certainly be required if the plaintiff intended to enforce the rights so elaborately asserted in this notice;—if the system were really a genuine provision designed to protect through many years to come the restricted right to “use” and the seemingly qualified title which it purports to grant to dealers and to the public, from being exceeded or departed from.

Third. The fact that under this system “at different times” “large numbers” of machines, as is alleged in the plaintiff’s bill, have been “covertly” sold to the defendants by the plaintiff’s wholesale and retail agents at less than the price fixed for them is persuasive evidence that the transaction is not what it purports on its face to be. If it were a reasonably guarded plan, really intended to keep the plaintiff in touch with each of its machines until the expiration of the patent of latest date, for the purpose of insisting upon its being used in the manner provided for in the “License Notice” the plaintiff’s prompt and sufficient remedy for such an invasion of its right as is claimed in this case would be found in its sales department or rather in its “license” department, and not in the courts. That the plaintiff comes into court with a bill to enjoin the defendants from reselling machines secretly sold to them in large numbers by the plaintiff’s agents indicates very clearly that at least until the exigency out of which this case grew, arose, the scheme was regarded by the plaintiff itself and by its agents simply as one for maintaining prices by holding a patent infringement suit *in terrorem* over the ignorant and the timid.

And finally, while the notice permits the use of the machines, which have been fully paid for, by the “unlicensed members of the general public,” significantly called in the bill “the ultimate users,” until “the expira-

tion of the patent having the longest term to run" (which, under the copy of the notice set out in the bill, would be July 22nd, 1930) it provides that if the licensee shall not have failed to observe the conditions of the license, and the Victor Company shall not have previously taken possession of the machine, as in the notice provided, then, perhaps sixteen years or more after he has paid for it and in all probability long after it has been worn out or become obsolete and worthless "it shall become the property of the licensee."

It thus becomes clear that this "License Notice" is not intended as a security for any further payment upon the machine, for the full price, called a "royalty," was paid before the plaintiff parted with the possession of it; that it is not to be used as a basis for tracing and keeping the plaintiff informed as to the condition or use of the machine, for no report of any character is required from the "ultimate user" after he has paid the stipulated price; that, notwithstanding its apparently studied avoidance of the use of the word "sale" and its frequent reference to the word "use," the most obvious requirements for securing a *bona fide* enforcement of the restrictions of the notice as to "use" are omitted; and that, even by its own terms, the title to the machines ultimately vests in the "ultimate users," without further payment or action on their part, except patiently waiting for patents to expire on inventions, which, so far as this notice shows, may or may not be incorporated in the machine. There remains for this "License Notice" so far as we can discover, the function only, of fixing and maintaining the price of plaintiff's machines to its agents and to the public, and this we cannot doubt is the purpose for which it really was designed.

Courts would be perversely blind if they failed to look through such an attempt as this "License Notice" thus plainly is to sell property for a full price, and yet to place

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restraints upon its further alienation, such as have been hateful to the law from Lord Coke's day to ours, because obnoxious to the public interest. The scheme of distribution is not a system designed to secure to the plaintiff and to the public a reasonable use of its machines, within the grant of the patent laws, but is in substance and in fact a mere price-fixing enterprise, which, if given effect, would work great and widespread injustice to innocent purchasers, for it must be recognized that not one purchaser in many would read such a notice, and that not one in a much greater number, if he did read it, could understand its involved and intricate phraseology, which bears many evidences of being framed to conceal rather than to make clear its real meaning and purpose. It would be a perversion of terms to call the transaction intended to be embodied in this system of marketing plaintiff's machines a "license to use the invention." *Bauer v. O'Donnell*, 229 U. S. 1, 16.

Convinced as we are that the purpose and effect of this "License Notice" of plaintiff, considered as a part of its scheme for marketing its product, is not to secure to the plaintiff any use of its machines, and as is contemplated by the patent statutes, but that its real and poorly-concealed purpose is to restrict the price of them, after the plaintiff had been paid for them and after they have passed into the possession of dealers and of the public, we conclude that it falls within the principles of *Adams v. Burke*, 17 Wall. 453, 456; and of *Bauer v. O'Donnell*, 229 U. S. 1; that it is, therefore, invalid, and that the District Court properly held that the bill must fail for want of equity.

It results that the decree of the Circuit Court of Appeals will be reversed and that of the District Court affirmed.

Reversed.

Dissenting:

MR. JUSTICE MCKENNA, MR. JUSTICE HOLMES and
MR. JUSTICE VAN DEVANTER.